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MEXICO
Moving away from alchemy
Page 3

World News

Police row in Grenada erupts into killings

Simmering disagreement within the leadership of the police force on the eastern Caribbean island of Grenada erupted in a shooting incident which left the island's police commissioner, the assistant commissioner, and a US government official dead. Another senior official was injured. It was the worst violent incident since the US invasion in 1983. Page 3

China recalls envoys

China has recalled all its ambassadors for a special conference in Peking, probably to discuss how the country's international image can be repaired. Page 16

Polish strike

Bus and tram drivers in Bydgoszcz, Poland, stopped work to demand higher wages in the first important strike since Solidarity's election success. Page 2

PM faces defeat

Charles Haughey, Ireland's Prime Minister, seems likely to be defeated in a vote today in the Dail, or parliament, on his continued leadership of the country. Page 2

EC milk row near

Controversy over bovine somatotropin - the powerful hormone which manufacturers claim can stimulate milk yield - is set to erupt next week when the EC adopts a plan to ban it. Page 28

Offer to Communists

Greek communists have been given three days to try to forge a coalition Government, although a fresh election is still probable.

UK strike threat

A 24-hour national train strike created traffic chaos in Britain and the rail union said it would repeat the walkout every week until it wins its pay claim. Page 9

National Party plan

South Africa's ruling National Party unveiled a five-year plan on which it will base both its campaign for re-election and its strategy for a negotiated black-white power sharing agreement. Page 4

Neutral venue plan

Three Arab leaders, continuing a desultory effort to resolve Lebanon's civil war, are trying to arrange a meeting of the Lebanese parliament outside the country to discuss political reforms. Page 4

Swapo accuses SA

Sam Nujoma, leader of the South West Africa People's Organisation accused South Africa of using members of a counter-insurgency unit to intimidate voters in Namibia. Page 4

Tunisian amnesty

Tunisian parliament ratified a general amnesty bill restoring civil rights to 5,416 people. Page 4

Gas blast kills 22

Gas explosion killed 22 people in a coal mine at Xinhi in China's northeastern Shanxi province.

A bridge too far

Paris Mayor Jacques Chirac appealed to the military to drop plans to install anti-aircraft guns on a road bridge over the River Seine to protect next month's Western summit.

Business Summary

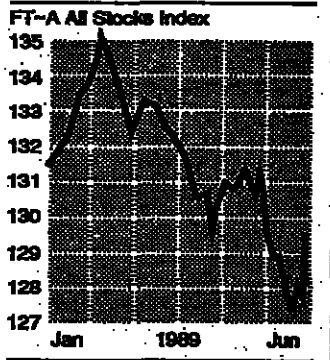
GEC profit rise sets stage for Plessey bid

Pre-tax profits at the General Electric Company, Britain's largest electrical and electronics group, rose by 13 per cent last year as the company registered strong performances in its office equipment, electronic measurement and power systems divisions.

With the figures at the top end of market expectations the stage was set for an expected new bid for the Plessey electronics company. Page 17; Lex, Page 16

UK GILTS: Yields on long-maturity government bonds dropped briefly below 10 per cent as the market rallied amid

UK Gilts



temporary enthusiasm about sterling and after Tuesday's sharp rally. The market retreated in the afternoon as sterling lost its early strength. International Capital Markets, Section II

FERRUZZI, Varasi and Cabassi, Italian groups, are to bring together many of their interests in publishing, insurance and property in a single holding company to be quoted on the Milan stock exchange. Page 17

DR Gerhard de Kock, who played a key role in restoring South Africa's credibility after US banks foreclosed on their loans in August 1985, is to step down as Governor of the SA Reserve Bank. Page 4

JAPAN: Industrial production recovered in May after steep falls in April reinforcing a view of continued economic expansion. Page 4

DAIMLER-BENZ, West German motor conglomerate, is planning to raise capital through a 1 - for - 10 rights issue to strengthen its financial resources. Page 17

CANADA tabled a long-awaited blueprint for more effective control of the governments' massive trade-distorting subsidies to their industries and other producers. Page 6

BALTICA Holding, Danish insurance and finance group, is selling its Baltica Invest subsidiary to the unit's management following a Danish government decision. Page 18

YVES Saint Laurent, French fashion and perfumes group, launched the sales campaign for its FFr341m ($51.4m) stock market flotation, due to take place on July 6. Page 19

DATAMATION, the authoritative US data processing journal, has published its annual "top 100" list showing dramatic growth rates among small, niche-market, computer companies. Page 18

SINGAPORE International Monetary Exchange proposes to launch a Euroyen three-month interest rate contract. Page 21

KOITO Manufacturing, Japanese company under siege from Mr T Boone Pickens, US corporate raider, and Mr Kitaro Watanabe, his Japanese ally, hit back with a tough-talking American-style counter-attack. Page 20

IMPERIAL Chemical Industries, Britain's biggest chemicals group, plans to step up investment in the Far East. Page 6

Uno's future darkens after further report of scandal

By Ian Rodger in Tokyo

THE FUTURE of Mr Sousuke Uno as Japanese Prime Minister looked bleak yesterday despite his denial of reports that he hinted to associates on Tuesday evening that he would like to resign.

Already embarrassed by reports of an earlier affair with a part-time geisha, Mr Uno was widely reported to have considered resigning when he learnt on Tuesday that a weekly magazine was about to publish details of another relationship with a 16-year old apprentice geisha.

Some analysts in Tokyo suggested he might go as early as next week as a scapegoat for the expected defeat of the increasingly unpopular ruling Liberal Democratic Party (LDP) in the Tokyo city elections on Sunday.

Mr Uno, a minor figure in the LDP although Foreign Minister in the previous Takeshita government, was appointed Prime Minister less than four weeks ago. He was installed by party leaders hoping that his lack of involvement in the Recruit bribery scandal would help the LDP to recover its standing with the public.

Instead, he has been weighed down and the country diverted by the accounts of his private life. Public reaction to the first woman's comments - which portrayed him as a cheap, unfeeling man - has been strong, and probably contributed to an unexpected crushing defeat of the LDP in a rural by-election last Sunday.

Japan has traditionally been tolerant of the extra-marital activities of its politicians, reflecting the fact that married couples in Japan often lead quite separate lives. In contrast, financial scandals have been a recurrent theme in post-war politics and have claimed, even before the Recruit affair, several prominent victims.

However, the perception that Mr Uno is a weak leader has rendered him vulnerable to the sort of reports that previously would have attracted only passing attention.

Mr Uno yesterday denied that he had offered to resign and insisted that he would go to the summit to fulfill his responsibility as Prime Minister.

Despite the denials there is no doubt that senior party and government leaders were called for an emergency meeting at Mr Uno's official residence on Tuesday evening.

According to reports, the Prime Minister became very agitated. He told aides he no longer wanted to be Prime Minister and he especially did not want to go to the summit of leading industrialised nations in Paris in mid-July for fear of being ridiculed.

One of the participants acknowledged publicly yesterday that the suggestion was made at the meeting that Mr Uno "might not be able to go to the summit." Others said privately that they worked hard to convince the prime minister not to resign now.

Financial markets reacted strongly. The dollar rose Y2.32 to Y143.55 in the Tokyo market and the Nikkei average of 225 leading shares on the Tokyo Stock Exchange dropped 223.61 to 33,245.6.

Political analysts in Tokyo said the episode means that Mr Uno's term as Prime Minister, which was never expected to be long, could end up very short indeed. However, it will be difficult for the LDP to replace him. Most of the party's leaders have been discredited because of their involvement in the Recruit scandal.

Editorial comment, Page 14


Uno yesterday: denial

Brussels steps up attack on telecom service monopolies

By Tim Dickson in Brussels

THE EUROPEAN Commission yesterday stepped up its attack on Europe's telecommunications authorities by agreeing controversial plans to open many of their monopoly services to independent operators.

In a series of moves designed to encourage more competition and prepare the way for a single market in telecoms, the Commission spelt out detailed rules aimed at allowing private sector companies to provide so-called value added services, such as videotext and electronic mail, by the middle of next year. The rules would also allow companies to offer their own data transmission services at the beginning of 1993.

Yesterday's developments are likely to be fiercely resisted by certain EC governments - notably France, Belgium, Italy and Spain - which resent not only some of the content of the Commission's plans but the manner in which Brussels is proceeding without seeking the endorsement of member states.

Sir Leon Brittan, the Commissioner in charge of competition, is exploiting the little-used Article 90 of the Treaty of Rome, which shows how public monopolies can be exempted from the EC's competition rules. It also stresses that "the development of trade must not be affected to such an extent as would be contrary to the interests of the Community."

Sir Leon emphasised yesterday that the basic telecoms network - traditional telephone lines, fibre optic lines, micro-wave and satellite links, for example - is of "general economic interest" and could, under the rules of the treaty, be entrusted by member states to a single monopoly.

While also accepting that "voice telephony" - conversations, which represents 90 per cent of telecoms business - should be protected, he insisted that other telecommunications services must be opened to newcomers.

The Commission promised yesterday that the requirements on services would not be introduced before April 1 next year, following opposition by some member states to its "unilateralist" strategy.

If the Council of Ministers agrees by this deadline on the separate and technical Open Network Provision (ONP) directive aimed at harmonising conditions under which a liberalised telecom market would operate, the rules would come into force several months later, when ONP is formally adopted under EC procedure.

Should no progress on ONP be made by member states the planned liberalisation will take effect from April 1. "We are committed to a policy whereby liberalisation and harmonisation go hand in hand," Sir Leon said.

The Commission also plans special transitional arrangements up to December 31, 1992, allowing member states to prohibit, until then, the resale of lines leased from monopoly authorities which could compete with a public data communications service.

EC governments, however, will have to separate their telecommunications authorities' regulatory powers from their business activities - as the UK has done; publish by the end of next year the information necessary for public operators to enter the market; abolish restrictions on the processing of signals before and after their transmission via the public network; and introduce measures to allow long-term contracts to be terminated.

UK to seek alternatives to Delors union plan

By Philip Stephens, Political Editor in London

DETAILED studies of alternatives to the Delors plan for European economic and monetary union are to be initiated by the UK Government after this week's decision by the Madrid summit of European Community leaders to push ahead towards that goal.

Mrs Margaret Thatcher, the Prime Minister, will tell the House of Commons this afternoon that her explicit acceptance at the summit of the aim of such a union did not imply acceptance of the blueprint model put forward by the committee chaired by Mr Jacques Delors, the president of the European Commission.

Her statement is expected to provide the background for a further move by Mr Neil Kinnock, the Labour party leader, towards committing the opposition to full membership of the European Monetary System if Labour wins the next general election.

Mr Kinnock, who will press the Prime Minister on whether the reformulation of her position on membership of the EMS exchange rate mechanism marks only a shift in tone rather than substance, has indicated that Labour's own conditions for joining now seem increasingly likely to be met.

Mrs Thatcher, who can expect close questioning from MPs on both sides of the Commons on the apparent soften-

Continued on Page 16
Ian Davidson, Page 2; Economic Viewpoint, Page 14.

US indicators fuel speculation of easier money

By Peter Riddell, US Editor, in Washington

US MONETARY policy could ease, according to market analysts, following further evidence that the pace of economic activity is slowing.

The US index of leading economic indicators, which looks ahead to levels of activity six to nine months ahead, dropped sharply by 1.2 per cent in May.

This was not only more than analysts had been expecting, but was also the largest monthly fall for the 18 months since the aftermath of the October 1987 stock market crash. Nine of the 11 constituents of the index dropped.

This prompted further market speculation about a possible easing of US monetary policy by the Federal Reserve.

The announcement was followed by a fall in the dollar, partially offsetting sharp early gains in European trading. But the direct impact was limited as the dollar was affected by the fluctuations of the Japanese Yen in response to the renewed political uncertainty in Tokyo.

Although this does not mean that a recession is imminent, the indicators have renewed talk of a further cut in interest rates, especially with a meeting of the Fed's policymaking Open Markets Committee due next Wednesday and Thursday.

Mr Marlin Fitzwater, the White House press spokesman, said the figures confirmed "recent evidence that the economy is growing at a slower pace in the second quarter." He added that the economy was "healthy" and the slowdown should produce "less pressure" on inflation and interest rates.

The index, which fluctuates from month-to-month, is now 1.6 per cent lower than last January's peak. The coincident index has also been broadly flat over the past three months, though the lagging index has continued to advance.

These figures follow other recent indicators, including

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Margaret van Hattem dies

Margaret van Hattem, the East Europe correspondent of the Financial Times, died yesterday at the age of 40 after a long illness.

Her reporting from Brussels, especially on the Common Agricultural Policy, from Britain's Houses of Parliament, most noteably on Northern Ireland, and in her final post was exceptional for political feel and for its often brilliant writing style.

To these qualities were added a quite remarkable courage during a long and difficult battle against brain cancer. Incisive writing, original analysis and razor-sharp wit remained undimmed to the end. Obituary, Page 8

US, Japan reach accord on mobile 'phones dispute

By Nancy Dunne in Washington

THE US and Japan yesterday averted a row over telecommunications trade with an agreement providing increased foreign access to the Japan's lucrative mobile telephone market.

The settlement was reached after two all-night bargaining sessions, under threat of US retaliation and ever worsening trade relations between the two economic superpowers.

The US last month cited Japan, along with Brazil and India, under the controversial "Super 301" provision of the 1988 US trade law for its failure to provide market access.

Mrs Carla Hills, the US Trade Representative, was prepared to impose tariffs of up to 100 per cent on some Japanese products.

All threats of retaliation have now been dropped.

Mrs Hills said that even though the agreement concerns only cellular and mobile telephones, it could set a precedent for the entire telecommunications market in Japan.

"The measures should provide immediate improvements for US companies in these two high-growth segments of the Japanese market," she said.

Acting on a complaint from Motorola that it could not introduce its small hand-held cellular phones into the Japanese markets, Mrs Hills announced on April 28 that Japan was not in compliance with a previous pact reached in Market-Oriented Sector Selective (Moss) talks.

The talks were led in Washington by Mr Linn Williams, the Deputy US Trade Representative, and a special envoy, Mr Ichiro Ozawa, former deputy cabinet secretary, who flew into Washington at the weekend to break the deadlocked negotiations.

Mr Ozawa was about to depart from Washington Tuesday when Mrs Hills intervened and asked for a final effort.

As a result of the consultations, the Japanese Government agreed to take specific actions to allow more competitive access to the Japanese telecommunications market, including:

● Improved access to frequencies necessary for third party radio and cellular telephones to be assigned on a non-discriminatory basis in new systems.

Four new systems are expected to be made available in the Tokyo area within the year.

● Improved transparency in and the streamlining of licensing procedures for third party radio businesses.

Foreign representatives will be allowed to participate in the sessions of the Radio Regulatory Council when it is drafting or revising frequency allocations.

● The Ministry of Posts and Telecommunications will grant or deny license applications for new systems within about four months of the submission of an application.

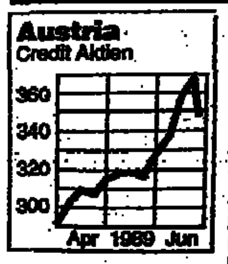
In the Agreement, the Japanese said they expect digitalisation of cellular telephone systems in "the near future."

"To that end, we propose meetings of Japanese and American experts to study the technical details in order to prevent the emergence in the future of such issues as the current one."

Motorola issued a statement saying it would "energetically pursue our new opportunities" and called on the two governments to closely monitor the implementation of the agreement.

MARKETS

Austria Credit Aktien



STERLING
New York lunchtime: $1.5580 (1.5680)
London: $1.5560 (1.5655); DM3.0575 (3.0625); FFr10.3700 (10.3825); SFr2.6275 (2.6375); Y220.00 (220.75)

DOLLAR
New York lunchtime: DM1.9615 (1.9580); FFr6.6565 (6.6395); SFr1.6865 (1.6850); Y142.75 (141.75)
London: DM1.9645 (1.9560); FFr6.6650 (6.6325); SFr1.6890 (1.6840); Y142.75 (141.10)

INTEREST RATES
US lunchtime: Federal Funds 9⅝% (9⅞); 3-mth Treasury Bills: yield: 8.3% (8.29); Long Bond: 108⅜ (108½) yield: 8.114% (8.073)
London: 3-month interbank: close 13⅞% (same)

STOCK INDICES
New York lunchtime: Dow Jones Ind. Av. 2,503.22 (-23.15); S&P Comp 325.75 (328.44)
London: FT-SE 100 2,209.4 (+3.0); World: 143.75 (Tues)
Tokyo: Nikkei Ave 33,245.60 (-223.61)
Frankfurt: Commerzbank 1,849.4 (+19.9)

GOLD
New York latest: Comex Aug $380.8 (379.8)

OIL
Brent 15-day (Argus) $17.95 (-0.20) (July); West Tex Crude $20.15 (-0.27½) (Aug)

CONTENTS

Clear path for European Community emerges through the fog

The Twelve have passed a watershed which is almost certain to be marked by a significant transfer of sovereignty to EC institutions

IF THE Man in the Metro felt confused yesterday morning over the significance of this week's Madrid summit, he could have been forgiven. Figaro headlined cautiously: "Europe: Small Steps to Monetary Union." The business daily Les Echos said: "Madrid compromise puts off real choices". The right-wing Le Quotidien was non-committal: "Europe: a Draw."

The confusion is partly due to the mixed signals from the political

IAN DAVIDSON
ON EUROPE

leaders. Mr Jacques Delors, the European Commission president, said the move to economic and monetary union (EMU) was now irreversible; Chancellor Helmut Kohl said the meeting had taken a "small but important step" in that direction; Mrs Margaret Thatcher claimed to have prevented any automatic move to monetary union.

But confusion is also caused by paying too much attention to the detailed words on paper: the exact timing and components of Mr Delors' plan for economic and monetary union (EMU), or the precise terms of the compromise communique finally hammered out between Mrs Thatcher on the one hand, and the proponents of economic and monetary union on the other.

At a certain level, of course, these details have considerable importance: the Delors report will remain a yardstick for future debate, and the Madrid communique will long be used as a weapon by both sides in their political battles. But if you shut your eyes, you can see that these details are not the heart of the matter.

The heart of the matter is that the European Community has just passed a watershed in its political history, which is almost certain to be marked by a significant transfer of national sovereignty to EC institutions. Naturally, we cannot predict the details of that transfer; that's what the negotiations will be about. But if words have any meaning, the Madrid summit is likely to prove to be the most important decision-point since the signing of the Rome Treaty.

Mrs Thatcher claims to have "conceded absolutely nothing" to the pro-EMU lobby; she has averted any commitment to the second and third stages of the Delors plan, and she has even managed to rub out any reference to the plan as a "good basis" for further negotiation. This is just fencing with windmills: the Delors plan is a set of proposals, but it is no more than that. The alchemy of real political commitment will only take place in the crucible of inter-governmental negotiation.

In that crucible, virtually every element in the Delors plan may be transformed out of all recognition. But one element will remain constant: the purpose of the negotiation will be to transfer sovereignty to Community institutions.

Mrs Thatcher's opponents are not driven by some sort of idealistic Euro-fanaticism; but they sense that control over their economic destiny is slipping out of their hands, through the opening up of the single market, liberation of capital movements, and the declining utility of the exchange rate as a policy instrument. If they want to regain some control, it must be through stronger common institutions.

The real argument, therefore, is not whether a European central bank should control the British money supply, but whether governments should hold a negotiation to change the Rome Treaty to strengthen EC institutions. That argument has been comprehensively settled: everybody knows it.

Mrs Thatcher fought hard to set up procedural tank-traps in the final communique, but they will have no effect: if a majority of member states want to hold an inter-governmental meeting, she cannot prevent them. President François Mitterrand has already announced that France will call for the conference at the earliest moment, i.e. after July 1 next year, and he appears confident that it will convene not long thereafter. It is also clear that the issue at the conference will be the ideological battle over the political future of Europe.

Since the Rome Treaty was agreed by all governments, it can only be changed by unanimous agreement: therefore, Britain has a veto. The practical dilemma facing the British Government, however,

Mitterrand and Thatcher: opposing approaches to an inter-governmental conference

will be more complex: should it seek to veto any treaty changes absolutely, or should it use the threat of veto as a bargaining tool.

The second course would concede the political sacrifice to which Mrs Thatcher is hostile; the first would run some risk that her opponents would create a two-tier Europe, by moving ahead without her.

The one outcome which seems least likely is that a majority of states, including France and West Germany, would take a majority decision to hold an inter-governmental conference in order to strengthen the Community, and then submit calmly to a British veto. The very act of holding a conference will virtually guarantee a result antithetical to the views of Mrs Thatcher, and perhaps unfavourable to UK interests.

A prudent assumption, therefore, must be that the conference will result in a significant step towards economic and monetary union, including a strengthening of Europe's common institutions. It might not follow the Delors model, with Community control of budgetary policy; that is for the economic schoolmen to debate. But we should assume that it will involve a progressive strengthening of the EC's role in the management of economic and monetary policy.

The political impact of such an outcome would be immense, both inside the Community and in the wider world. Over the past five years, the Twelve have been sloughing off discredited models of EC action: first the harmonisation model, and more recently the farm policy model. But the model of economic and monetary union, for 15 years the object of formal genuflection, has throughout that period been in practice disregarded. If it now makes headway, it will have a powerful binding effect on the member states.

Where this will count most is in West Germany's international posture. In the current unbuttoning brought on by the Gorbachev revolution, the Germans have shown unfamiliar confidence in trying out their own role in the world.

Some drew the worst conclusions from their assertive challenge to aspects of Nato's nuclear orthodoxy, and accuse them of sliding off towards the East. The accusation is wildly over-done, no doubt. But a step which required West Germany to submit its economic and monetary policies to progressive EC control, would be both a symptom and a guarantee of its political anchoring in the West.

It would also be a symptom and a guarantee of the political anchoring of all the member states to each other. The procedural battles over the Delors plan dominated yesterday's headlines; yet the Madrid communique led off with an assertion that the EC now had a greater role in international affairs, and concluded with a foreign policy statement which struck a newly-confident tone on East-West relations, including nuclear and conventional arms control.

The Community's views on arms control may appear to be of only moderate interest: views are easier than action, and defence and security remain formally outside the EC mandate. Nevertheless, it would be short-sighted to imagine that economic and monetary union is just about economics and money. It is not: it is about the overall integration of the Community, and the strengthening of an EC dimension as important as economic and monetary co-operation cannot fail to strengthen the Community's political backbone.

The problem with Mrs Thatcher's position in Madrid is not whether she was right or wrong about the Delors proposals, but whether she perceives the political nature of the EC. Her loyalty to Nato is admirable. But it is not at all clear that an inter-governmental alliance is as relevant, in terms of the operational requirements of today's agenda, as a politically integrated EC. Since Tuesday, the Community's prospects of closer political integration have looked a lot stronger.

Transport strike erupts as Poles wrestle inflation

By Christopher Bobinski in Warsaw

BUS AND tram drivers in Bydgoszcz in north-western Poland stopped work early yesterday morning to demand higher wages in the first important strike since the success of the Solidarity union in parliamentary elections earlier this month.

The strike, which has neither the support of Solidarity nor the OPZZ official unions, comes after price increases in the past two days of cigarettes, alcohol, petrol and sugar, and as people are expecting food prices to rise.

The drivers, who are occupying their depot, are demanding an increase in their hourly rate of pay from Zl 300 to Zl 800, and higher pay for overtime. The stoppage came as the Solidarity national leadership met in Gdansk to debate the prices issue and hold talks with Mr Andrzej Wroblewski, the Finance Minister, and Mr Jozef Oleksy, the Trade Union Minister.

The two ministers went to Gdansk to present a plan for consultation which aims at eliminating subsidies on food prices and would attempt to balance supply and demand, but could mean the price of some items going up by as much as 300 per cent.

Mr Kazmierz Olesiak, the Agriculture Minister, who faces the prospect of fast diminishing food supplies, has been urging that the rises be brought in as quickly as possible. He told a news conference on Tuesday: "Everyone is afraid of raising food prices, but no one seems to be afraid of food shortages."

However, on the same day, the Communist party politburo ordered a halt to price rises until the new Government can be installed, and told officials to release food reserves, as well as import additional supplies to alleviate the situation.

Dail expected to vote out Haughey as Premier

By Kieran Cooke in Dublin

MR CHARLES HAUGHEY, Ireland's Prime Minister, seems likely to be defeated in a vote today in the Dail (Parliament) on his continued leadership of the country.

His last-minute attempts to gain support for his candidacy as Taoiseach (Prime Minister) apparently failed yesterday after the small Progressive Democrats Party said it would support the nomination of Mr Alan Dukes, leader of the main opposition Fine Gael party.

If Mr Haughey or any other candidate fails to gather the required number of Dail votes, then Mr Haughey, who would continue as Prime Minister for the time being, would inform the President of the situation.

The President has the power to ask him to make renewed attempts to form a Government though he cannot ask anyone else to do so.

What happens if subsequent talks fail is something of a constitutional conundrum. Such things have not happened before in the history of the Irish state.

The present problems have been caused by a recent general election in which Mr Haughey's governing Fianna Fail party suffered considerable setbacks. Mr Haughey has refused to resign and has said that another election is undesirable.

Delors urges EC to back Brady plan with cash

THE European Commission president, Mr Jacques Delors, has urged EC governments to create a special fund to support the Brady plan to cut Third World debt, Reuter reports. But diplomats said Britain and West Germany had serious reservations.

Mr Delors said the European Community fund, proposed by Spain, was the most realistic and serious proposal for showing that the EC had not lost interest in such nations in Latin America and elsewhere.

He told a news conference he hoped all Community governments would back the Spanish plan in time for the annual summit of the seven leading industrial nations in Paris on July 14 where the Third World debt crisis will be high on the agenda.

"We are talking about the future of democracy and of social and political stability in numerous countries. It is our duty and it is in our political interest," he added.

Brussels warns on imbalances

By David Buchan in Brussels

RISING inflation and diverging budgetary and trade imbalances in the 12 European Community states could jeopardise sustained economic growth, the European Commission warned yesterday.

The Commission claimed its latest economic report, published yesterday, underlined the need for closer budgetary co-ordination among the Twelve, as foreshadowed in the Delors study which was endorsed on Tuesday by EC leaders as the basis for progress towards economic and monetary union.

The report, to be presented to EC finance ministers next month, predicts that the rise in real output in the Community will only slacken marginally from 3.25 per cent this year to 3 per cent in 1990. It attributes Europe's prolonged boom mainly to the structural adjustment made by many EC states in recent years, increased profitability of investment and the desire of business to gear up for the coming single EC market by expanding capacity.

However, "these very positive prospects are threatened by growing disequilibria particularly the acceleration of inflation", it says. If higher inflationary expectations feed into higher wage settlements, the levels of profitability, investment, growth and employment could be affected in turn, it warns. Though the Commission forecasts a 2.5m-3m increase in jobs in 1989-90, this will only bring unemployment down around 10 per cent next year because of the net increase in the number of people seeking jobs.

Current account imbalances are increasing among several member states, putting under potential strain the stability of exchange rates. The report singles out the large and growing German trade surplus as "very worrying", and the "disquieting" deterioration of Portugal's current account deficit.

Air traffic growth 'to continue'

AIR congestion in Western Europe will continue to worsen over the next five years but fares may fall, a group of 21 scheduled airlines said yesterday, Reuter reports.

The Association of European Airlines said passenger traffic would grow by an annual 7 per cent in the next five years because of a general economic slowdown, down from an average of 7.5 per cent since 1986.

Passengers have faced worsening delays as air traffic has steadily increased. However, the AEA also forecast that flying should become cheaper.

THE MADRID SUMMIT

A close run thing at Felipe's Waterloo

By Peter Bruce in Madrid

THE SPANISH press was kind to Mr Felipe Gonzalez, the Prime Minister, yesterday morning. Apart from some unsurprising carping from the right, the media at least seemed to agree that he had not come away from hosting Spain's first European Community summit empty-handed. But it was a close run thing.

At midnight on Monday, the end of day one, the Spanish mood was grim. The Government spokesperson, Ms Rosa Conde, wandered into the conference centre and was heard to mutter that one head of government seemed to be trying to give "the embrace of death" to the summit.

Mrs Margaret Thatcher? No. President François Mitterrand. The French President had unexpectedly taken a very hard line on the Delors report on economic and monetary union in the EC.

He was insisting that it be adopted in full and that the summit agree on a date for holding an inter-governmental conference at which the EC Treaty could be changed to meet the Delors recommendations.

Mrs Thatcher would not go along with this but had amazed her hosts by softening her stiff opposition to the Delcrs report. She was prepared to consider it a basis, if not *the* basis, for progress towards monetary union and was prepared to attend a conference even though she did not want one called.

But the Spanish had been relying on the French, particularly since both countries are led by Socialist parties, to bring it safely through its first, and difficult, presidency.

Both monetary union and an EC social charter were on a summit agenda for the first time. Mr Gonzalez regularly speaks to the French leader by telephone and he had taken great pains to co-ordinate his summit position with Paris and Bonn in order to try to deal coherently with Mrs Thatcher in Madrid.

With the French presidency starting next month, 1989 has sometimes been described here as a year of "joint presidency" between Madrid and Paris.

Chancellor Helmut Kohl took the lead in Madrid on Monday morning by tabling a five-point proposal which included starting phase one of Delors (which does not need changes in the Rome Treaty) on July 1 next year, accepting the Delors report as the basis for monetary union and beginning work on an inter-governmental conference.

But while both Mr Kohl and Mr Gonzalez showed a willingness to weaken that, Mr Mitterrand, with some Italian support, did not.

Mrs Thatcher, who anyway does not like Mr Jaques Delors, the European Commission president, did not want his report to be the only route to monetary union and if she was going to somehow link British participation in phase one to the other two stages that needed Treaty revision, the link had to be vague.

Faced with the almost treacherous obstinacy of his French political mentor, and conscious that the Spanish presidency might be heading for disaster, Mr Gonzalez had just one morning (Tuesday) to pull something out of the bag.

The Portuguese had also upset him (they, no doubt, will be hearing more of this) by refusing to support the Spanish presidency position unless they were promised more structural funds by the Community.

The priority was to wean the Italians away from France. Mr Mitterrand wanted a firm conference date but if a form of words could be found to commit Mrs Thatcher to attending one without Mr Mitterrand being able to interpret the words to French advantage (an agreement, during the French presidency, to call a conference), it was just possible such a conference could be held under the Italians, whose presidency begins in July next year.

Mr Ciriaco De Mita, the Italian Prime Minister, apparently then saved the day by suggesting that the wording of the draft conclusions drawn up early on Tuesday should be tightened. It should now call for "complete and adequate preparation" before a conference should be called.

That would be less easy for the French to fudge. "Complete and adequate" conclusions will take longer than the life of the French presidency to achieve. It was now late on Tuesday morning. Mr Mitterrand, facing a grubby start to France's presidency, grudgingly agreed.

Mr Gonzalez had escaped by the skin of his teeth and he will not be sorry to see the back of the Spanish presidency.

In a few hours in Madrid, two years of hard work and on-the-job Community training had nearly gone up in smoke.

There was a great deal of domestic political prestige riding on the summit and the mere existence, at the end, of a document all 12 leaders could put their names to was probably eloquent testimony to his ability to panic and concentrate at the same time.

Moscow calls meeting on ethnic unrest

THE Soviet Union announced yesterday that a long-awaited meeting of the ruling Communist Party's Central Committee aimed at addressing the country's growing nationality problems would take place late next month, Reuter reports from Moscow.

Mr Gennadi Gerasimov, the Foreign Ministry spokesman, made clear that the plenary session would seek to develop a broad political strategy on an issue which threatens to derail President Mikhail Gorbachev's perestroika reform programme.

"A tentative date has been set for the end of July," Mr Gerasimov said. "It is premature to predict the results, but we can suppose that it will end in a more clear definition of our national policy." He made clear the meeting would not be expected to solve individual issues.

Unrest among the Soviet Union's many ethnic minorities has emerged as one of the major problems facing Mr Gorbachev.

At least 200 people have been killed and more than 2,000 injured since the start of last year in the Transcaucasus and Central Asia, around half of them in clashes this month between Uzbeks and Meskhetian Turks in Uzbekistan.

The problem is compounded by the growth of nationalist demands in the Baltic republics, in Moldavia, Byelorussia and the Ukraine, where tens or even hundreds of thousands have taken to the streets in largely peaceful protests.

Honnecker (left) gets the word on Bonn from Gorbachev

Soviet briefing for Honecker

THE EAST GERMAN leader, Mr Erich Honecker, yesterday had talks in Moscow with Mr Mikhail Gorbachev, who briefed him on his trip to West Germany, Reuter reports.

Both men delivered speeches at a luncheon which took place in a "warm, friendly atmosphere," according to Tass news agency. They decided that improving relations between the two countries should have a top priority.

"Despite the visible variety in the concrete shaping of new social structures, the same aims, ideals and values are present as reliable basis for this (improvement)," the East German ADN news agency, said, referring to the varying pace of reforms in East European countries.

It said the Soviet leader briefed his East German counterpart on "his personal impressions" from the West German visit two weeks ago, telling him he was convinced more and more West Germans wanted peace and good relations with Moscow and other East European countries. Mr Honecker described the visit as a significant contribution to improving relations in Europe.

The 76-year-old East German leader set out his country's policy and told Mr Gorbachev he would stick to his chosen course but he fully supported Moscow's reform efforts.

ADN said the two leaders agreed direct links between factories should be increased, the range of traded goods expanded and quality improved.

The Soviet news agency said Mr Honecker, who arrived in Moscow on Tuesday evening, left later yesterday for Magnitogorsk, a foundry city in the Urals where he worked as a young Communist during the summer of 1931.

E Germany's first Airbus fails test

THE automatic navigation system on East Germany's new Airbus airliner failed during a test flight yesterday, forcing it to land in East Berlin, Reuter reports, quoting the official East German news agency ADN.

Airbus Industrie, the aircraft's manufacturer in Toulouse, France, said the Airbus Industrie ground support team at East Berlin's Schoenefeld airport repaired the system shortly after the aircraft landed.

ADN said the A310 airliner, which was delivered on Monday, turned back over the Soviet Baltic city of Vilnius when the navigation system failed. Interflug, the state airline, said the crew, including an Airbus test pilot, used manual navigation on the return flight.

An aviation industry source in France said it was the second time an Airbus Inertial Reference Navigational System had failed. The previous occasion was about two years ago on a US Pan Am aircraft. The incident was blamed on pilot error, the source said.

The Interflug aircraft, the first Airbus delivered to an East European carrier, had been flying to the Soviet city of Novosibirsk to test its maximum range. It had been specially adapted to fly more than 10,000km non-stop.

Interflug has bought three of the wide-bodied, 208-seat aircraft and takes delivery of the second today.

Markovic confident of 'making it' through a critical year for Yugoslavia

By John Lloyd, recently in Belgrade

MR ANTE MARKOVIC, the Yugoslav Prime Minister, has said that his country faces a "critical year" in its aim of making a transition to a market system.

In an interview with the Financial Times for the newspaper's annual survey – the first he has given to the foreign press since becoming Prime Minister in March – he professed confidence in his ability to push through radical reforms, in spite of the weakness of the federal government's position, exacerbated by the tension between the six autonomous republics over perceived Serbian nationalism.

"Do you think I would be here unless I really though I could make it?" he said at one point in the interview. "Making it," for Mr Markovic, is drastically reducing the soaring (around 400 per cent) inflation, and making the dinar convertible within five years.

To do this, he has eschewed specific anti-inflation measures of the kind which contributed to the downfall of his predecessor, Mr Branko Mikulic. Instead, he has put his faith in a battery of new measures – on enterprises, foreign investment, labour and accounting procedures – much of which is inherited from Mr Mikulic, but which in many cases has been revised to reduce the role of the League of Communists and the administration. Other laws, including one on taxes, are now in preparation.

"The most important period is this year," he said. "By this summer we should have adopted all the legislative acts which will introduce a framework for the new economic system. These will be the laws to introduce a unified economic system in a market which will be international, and in which all kinds of ownership will be on an equal footing. There will be a beginning to a transformation of enterprises where the capital is anonymous (belonging to no-one) into social capital (where ownership is clearly identified)."

The next year is also crucial for a trial of strength with those whom Mr Markovic calls "dogmatists, conservatives and ultra-leftists," who wish to frustrate the reforms. "They are not yet united but I am expecting that to happen. I don't fear it – it's normal."

Mr Markovic is concerned to increase the federal government's authority, presently very weak, in order to take control of the monetary instruments and remove barriers to trade put up by the republics. He is already encountering resistance from the state bank, whose board is composed of the chairmen of the republican banks and who are against what they see will be a loss of their independence.

The Prime Minister said the market reforms would not dilute Yugoslavia's system of "workers' self-management" under which enterprises are nominally run by a workers council. On the contrary, he said, it "reaffirms" the system, and brings both new rights and responsibilities. "It is to bring the workers closer to the market and allow them to make decisions based on market signals."

He would not commit himself to be in favour of political pluralism, as have some, especially in the Slovenian republic: but he observed that "personally, I feel that the very logic of the developments of the new economic system will demand changes in the political system".

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Incentives plan for banks' debt reduction deals

By Peter Riddell, US Editor, in Washington

THE US Congress has begun considering legislation to provide incentives for banks to participate in debt reduction agreements with Third World countries, coupled with penalties for those abstaining.

The Democratic chairmen of two key House committees have tabled bills which would remove some tax advantages and substantially increase the reserves required by the banks.

US bank regulators are, however, resisting any dramatic change in the supervisory framework which they regard both as unnecessary and as penalising US banks relative to international competitors.

A key point at issue is whether Third World loans should be marked down by banks to secondary market prices, as favoured by some leading Congressmen and the General Accounting Office, which acts for the legislature.

A GAO official has estimated that on this basis regulators should be requiring reserves of $49bn, covering all loans rated less than weak, against a target of $4.9bn for the more restricted category of loans rated value-impaired and losses. Bank reserve levels are $23bn. Regulators argue the secondary market is too thin to provide an adequate guide and maintain this approach would be too inflexible.

Representative Walter Fauntroy, the chairman of the House sub-committee on international development, finance, trade and monetary policy, has proposed legislation requiring commercial banks which refuse to participate in International Monetary Fund/World Bank-sanctioned debt reduction agreements to establish special reserves against the banks' outstanding loans to the relevant country.

Under his plan the amount of the reserve would be based on the secondary market value of the debt of the particular country, while such commercial banks would be banned from taking a tax deduction when the outstanding loans are declared partially or wholly uncollectable. The bill would require the appropriate US agencies to enter into multilateral negotiations to seek the adoption of similar guidelines applicable to non-US bank institutions.

A parallel bill from Representative John Lafalce would require reserves on loans to sovereign borrowers wherever payment of interest or principal is more than 90 days in arrears, with the amount varying on a country-by-country basis. Regulators could reduce reserve requirements for banks which have participated in the debt reduction strategy launched in mid-March by Mr Nicholas Brady, the US Treasury Secretary.

Separately, Representative Dan Rostenkowski, the chairman of the House ways and means committee, has proposed eliminating a provision enabling banks that lend to certain developing countries to claim tax credits to offset income from such loans. The change would raise $300m in fiscal 1990, but is open to the objection that it would discourage new lending. The latter proposal is tied to efforts to raise revenue to meet the Federal budget deficit reduction target for the coming year.

Bush set to raise pay of Congress and officials

By Lionel Barber in Washington

PRESIDENT George Bush is expected to propose today a pay increase for senior federal officials and for Congress members, as part of a comprehensive package aimed to make his Republicans the party of clean government.

He will propose banning honorariums – payments for speeches which Congress members have used to swell their incomes – combined with a congressional pay raise, possibly spread over more than one year. It was unclear yesterday whether Mr Bush would endorse a specific figure, though he backed a 25 per cent raise for federal judges earlier this year.

Controversy over pay and ethics have dominated the 101st Congress. Two top Democrats, including Mr Jim Wright, the House Speaker, were forced out of office after questionable financial dealings had come to light. Mr Wright lost the confidence of his own party last February when he mishandled a proposed 50 per cent pay raise for Congress and federal employees.

The defeat of the congressional pay raise – which for the past 40 years has been linked to those in other branches of government – has slowed recruitment of high-calibre appointees and prompted resignations among federal judges. Last week, Mr Robert Heller, Federal Reserve governor for international affairs, resigned to earn more money in the private sector. His Fed salary – which his switch will more than double – is $82,500 (£53,000). Congress members and Senators earn $89,500.

Argentina removes state of emergency

By Gary Mead in Buenos Aires

ARGENTINA'S out-going Radical party government has ended a 30-day state of emergency, imposed on May 29 after rioting and looting in the cities of Rosario and Buenos Aires, in which 14 people died and some 800 were arrested.

Mr Juan Carlos Pugliese, Interior Minister, also announced the release of all those arrested on suspicion of having participated in the disturbances.

The lifting of the state of emergency immediately precedes the hand-over of government to President-elect Carlos Menem of the Peronist party. President Raúl Alfonsín is to leave office tomorrow. His successor will be president in effect from then and go through a ceremonial assumption of office on July 8.

Since he was elected on May 14, Mr Carlos Menem has criticised Mr Alfonsín's handling of the Argentine economy, claiming that he will take over the presidency "at the worst moment in the country's history". He said on television interview this week Argentina can no longer exercise its vote at the UN because it is some $10m behind in its dues to the UN.

The Radical government's legacy includes a further large increase in all public sector tariffs, which yesterday were raised by an average 35 per cent, and a 130 per cent increase in the national minimum wage.

Mr Miguel Roig, the incoming Economy Minister, has promised that his economic programme will be "very tough", and that the Central Bank will no longer subsidise Treasury losses sustained through supporting loss-making nationalised industries. In 1987 state-owned companies lost an average $8.5m daily, which has given rise to Argentina's fiscal deficit, its hyper-inflation and social instability.

Besides facing a serious economic situation, Mr Menem will also be handed a simmering military crisis. On Tuesday this week, three lieutenant-colonels implicated in the army rebellion of last December were removed from active duty, the first step towards being retired from service.

Monsignor Antonio Quarracino, a leading member of the national Episcopal Conference, has called for a complete amnesty for members of the armed forces alleged to have violated human rights under the 1976-1982 military dictatorship – a fundamental demand of rebel officers who have mutinied three times since April 1987. Mr Menem has kept close relations with the Catholic hierarchy and army rebels.

● Argentina yesterday devaluated the austral by 4.15 per cent – the eighth devaluation since June 1. The austral was trading yesterday at 250:$1.

● Buenos Aires today returns indefinitely to daily four-hour power cuts, due to low levels in rivers generating hydro-electricity.

Canada in N-sale dilemma

By David Owen in Toronto

CANADA may soon be faced with a sensitive nuclear dilemma – whether to sell a large batch of heavy water to Romania for use in that country's Canadian-designed Candu nuclear reactors.

The Romanians agreed to buy five Candu units in a C$1bn (£542m) package in the early 1980s. Though much delayed, two of the pressurised heavy water reactors, located at Cernavoda, are now said to be moving towards completion.

As a result, Romania will probably need 900 tonnes of heavy water – worth approximately C$270m – within the next two to three years. The material, used in reactors that produce plutonium, the preferred material for making atomic bombs, is employed both as a moderator and a coolant in the Candu system.

Canada's dilemma, if asked to supply any or all of this requirement, is that Romania may have ulterior motives for wanting the substance. The country is suspected of having illegally re-exported 12.5 tonnes of Norwegian heavy water which it purchased in 1986.

The Norwegian authorities, which "have reason to believe" that the material has been re-exported, asked Romania for proof of its whereabouts about a year ago. As yet there has been no response.

According to Mr Gary Milhollin, a University of Wisconsin law professor and authority on world trade in heavy water, India and Israel are the countries most suspected of being the end-destination for the cargo. Libya, he says, is "a more distant suspect."

There is no guarantee that Romania will ask Canada for heavy water supplies. It is trying to construct its own production facilities. Canadian officials believe the first plant has almost entered the commissioning phase.

Even if the normal teething problems are avoided, however, the plant is thought incapable of yielding more than 270 tonnes of heavy water per year. This strongly suggests that Romania will be forced to look abroad for at least a portion of its needs. If it does, Canada – with what is probably the world's largest inventory of heavy water – is the obvious place to look.

Atomic Energy of Canada Ltd (AECL), the government-owned corporation which develops and markets the Candu reactor, has some 2,000 tonnes of heavy water in inventory. Moreover, according to one AECL official, Canada assured the Romanians of its preparedness to meet their possible heavy water needs during discussions regarding the original reactor sale.

Officials in the Canadian department of external affairs say that they are urging "our Romanian friends" to co-operate with Norway's request for information. They stress, however, that there is currently "no evidence that Romania has abrogated its international commitments."

Canadian and Norwegian officials met to discuss nuclear matters of mutual concern in April.

Canada is also facing the dilemma of whether to export tritium, a crucial ingredient in nuclear warheads. The main market would probably be the US.

Police row in Grenada erupts into killings

By Canute James in Bridgetown

SIMMERING disagreement among the leaders of the police force on the eastern Caribbean island of Grenada erupted into a shooting incident yesterday which left the island's police commissioner, the assistant commissioner and a US government official dead, and another senior official injured.

The commissioner was shot by his assistant, who was being re-assigned to the neighbouring island of St Vincent having completed his tour of duty. The deputy commissioner was subsequently shot dead by guards.

It was not clear how the US official was killed. He was reported to have been in a meeting with the police officers when the shooting started.

The State Department yesterday was unable to confirm that a US official had been killed, but said an unnamed member of the US mission in Grenada had been seriously injured in an unspecified incident at the police headquarters.

There has been feuding for the past few months among senior officers in the police force.

The incident yesterday was the most violent on the island since a US military invasion in 1983 to topple a military government.

The outbreak of shooting followed a deterioration in the political situation on the island, in which the ruling party has been split by a public quarrel between the Prime Minister, Mr Herbert Blaize, and the party leader, Mr George Mitchell.

The heads of government of the Caribbean Economic Community are scheduled to hold their annual summit in Grenada, starting on Monday.

Government officials elsewhere in the Caribbean said yesterday that no decision had been taken about cancelling the meeting in the light of the deteriorating situation in Grenada. They said, however, that the developments on the island were being viewed "very carefully."

Moving away from alchemy

Lucy Conger watches poll preparations in Mexico

PRESIDENT Carlos Salinas de Gortari's commitment to clean elections in Mexico, promised in his administration's six-year national development plan last month, will be put to the test on Sunday in the states of Baja California and Michoacan.

He and his ruling Institutional Revolutionary Party (PRI) lost the presidential elections in both states last July, and opposition candidates are believed able to win on Sunday. The governorship is at stake in Baja California so the honouring of an opposition victory there would oblige the PRI to surrender a state government for the first time. The PRI has held every governorship, and controlled the majority in all state legislatures, since the regime came to power in 1917.

The elections are seen as a sort of referendum on the president's first six months in office. Although the extent of his electoral victory last July was heavily disputed by the opposition, he has acted quickly to establish his legitimacy as president. In rapid succession, he has sought to curb the powerful oil workers' union, drug traffickers, corruption in the police and business.

On the economic front he has renewed the pact between employers and unions, and taken a tough line on renegotiating Mexico's external debt.

However, the PRI apparatus, given its well-established practice of manipulating elections, is very much on trial. The behaviour of PRI-dominated electoral authorities will not only show whether Mr Salinas can honour his pledge to modernise the party, but also whether the government is willing to recognise the evolution towards a multi-party political system which has already taken place in Mexico.

Of six state elections to be held this week, many believe the toughest for the PRI is that in Michoacan. This is the home state of Mr Cuauhtémoc Cárdenas, the main opposition figure and leader of the left-wing Party of the Democratic Revolution (PRD). In the presidential election, his Front took 64 per cent of the state's vote.

"If there is a true intention (by the PRI) to democratise, Michoacan offers the ideal opportunity," said Mr Jorge Zepeda, a political scientist who specialises on the state. This agricultural state of mid-western Mexico is one of the three poorest in the country and, as such, not considered strategic. Its governorship is not at stake.

The stakes are higher in Baja California, where Mr Ernesto Ruffo, charismatic candidate of the right-wing National Action Party (PAN), is a strong gubernatorial contender.

In Michoacan, the PRD could gain a majority in the state assembly. This would let the party supervise municipal election results, block the state's budget and jettison the PRI governor. However, Mr Cárdenas has had some internal squabbles to overcome in launching his own party, and he has insisted the PRD is prepared to govern jointly. He also denies any intention of deposing the PRI governor, Mr Genovevo Figueroa. Tension has hovered over political life in Michoacan since July when the pro-Cárdenas Front won the state's two senatorial seats and 12 of 13 federal congressional seats. Flexing their muscles, pro-Cárdenas militants occupied more than 50 of Michoacan's 113 municipal offices last November. This successful protest persuaded Mr Salinas, in one of his first acts in office, to remove the unpopular PRI governor, Mr Luis Martinez Villicana.

The spectre of violence has been evoked repeatedly and bitterly by PRI leaders but the PRD and several small parties cooled the rhetoric on all sides with the approach of the poll this week.

The PRD also has much at stake in Michoacan. Mr Cárdenas's father, the late President Lázaro Cárdenas, is revered throughout the state for distributing land to peasants and bringing in development projects. The son was PRI governor of Michoacan from 1980-86, before he was expelled from the party for outspoken dissidence over non-democratic practices. "Thank God for Cuauhtémoc – because of him we have electricity, a school, and water. What more can we ask?" said Ms Alicia Posada, who lives at the poor La Caja farming settlement.

The PRI finds itself in the unique situation of running against its own record. Its campaign was launched last December, when the party president, Mr Luis Donaldo Colesio visited Michoacan to remove veteran local bosses and do groundwork in modernising the party structure.

Throughout the state, PRI has staged four different types of internal election to instal new leaders of more than 1,700 local, municipal and peasant committees, in an effort a PRI state delegate, Mr José Guadarrama called "a profound restructuring – to be able to say there really is a party, there is a presence, there leadership at each level."

In a democratising move, 35,000 PRI militants voted as individuals, putting their ballots in transparent boxes, to select the final PRI slate of 18 congressional candidates.

However, traditional tactics have also figured prominently in the campaign. The PRI has availed itself of federal funds. In January, six cabinet ministers launched Plan Michoacan, a programme of public works projects, credits for small farmers, and food handouts costing $880m.

In Baja California, a $670m development hand-out was promised, though the government appears little inclined to disburse such an amount.

A hundred PRI election experts have been deployed to Michoacan to organise the voting. Some are practised "alchemists" (vote-riggers), according to party insiders and PRI renegades in the Cárdenas camp. Opposition parties have lodged formal charges, accusing the PRI of having padded electoral rolls in its strongholds and "shaving" off electors in opposition havens.

Meanwhile, in Baja California and Chihuahua states, the PRD and the PAN have large drives to organise cadres of poll-watchers to prevent and report irregularities on Sunday.

OVERSEAS NEWS

Deng rejects Mammon and promotes plain living

By Peter Ellingsen in Peking

IF CHINA can be said to have a strategy to combat trauma and mark out a way ahead - it is contained in a speech by Deng Xiaoping, the supreme leader, delivered nearly three weeks ago to army commanders.

The full text was released yesterday and state television led its main evening news with the speech, made on June 9 five days after tanks and troops violently ended the occupation of Peking's Tiananmen Square by pro-democracy demonstrators. Leading newspapers spread it across front pages, accompanied by photographs of Deng.

The 84-year-old leader explained the crisis by acknowledging that unrest was "bound to happen sooner or later" because the party had neglected proper ideological education. He said the answer to the Western threat of "bourgeoise liberalisation" was for China to retain economic reform while attacking "spiritual pollution" by stepping up indocrination.

With a Mao-like slogan he explained that, "promoting plain living must be a major objective of education and this should be the keynote for the next 60 to 70 years".

He argued that the "enterprising spirit" which once led him to say "to get rich is glorious", must accompany a national "plain living".

"I once told foreigners our worst omission of the past 10 years was in education," Deng said, adding, "What I meant was political education."

"This doesn't apply to schools and students alone, but to the masses as a whole, and we did not say enough about plain living and the spirit of enterprise ..."

Claiming economic reform had benefited China, he nevertheless blamed foreigners for having undermined stability.

"We run the risk of importing evil influences from the West, and we have never underestimated such influences."

Deng said China should stick to its "basic policies" of opening up to the outside world, building up infrastructure, economic reform and development of agriculture.

The speech revealed Deng's belief that the army fought a courageous and worthy battle in slaying largely unarmed civilians. With language more suited to describing a foreign war than a domestic upheaval, he praised the heavily-armed troops for killing those advocating change.

Of the ordinary citizens who manned barricades to keep the army out, he said: "We should never forget how cruel our enemies are. For them we should not have an iota of forgiveness."

CHINESE student leader Wu'er Kaixi, in a videotape made after fleeing China, has made a dramatic vow to continue the struggle for democracy and predicted that the "wild beast" *Communist leadership will soon fall*, AP reports from Hong Kong.

"This kind of government does not have the strength to continue living," Mr Wu'er said in an 18-minute videotape shown yesterday. "They are the people's enemies."

Mr Wu'er escaped from China with his girlfriend, Liu Yan, despite a nationwide manhunt. He was the most charismatic of the 21 student leaders accused by the Chinese authorities of inciting " counter revolutionary rebellion."

Mr Wu'er, at times choking back tears, made several emotional references to the people killed during that battle, in which much of the fighting raged along Changan Street that runs *into Tiananmen Square. "I don't know how* many martyrs' souls remain on Changan Street, may they forever rest in peace.

He urged those who participated in the campaign for freedom to "focus our will and continue the great patriotic democratic movement until the end. . . .If we don't get our act together, we won't be able to get moving and China will never advance."

Mr Wu'er remains in hiding in the West.

Electricity board chiefs sacked in Thailand

By Roger Matthews in Bangkok

THE Thai cabinet has sacked the chairman and most board members of the Electricity Generating Authority of Thailand, amid fears of power blackouts later this year and battles over the government's privatisation programme.

The announcement has been interpreted as a warning to the boards of other powerful state enterprises that they cannot expect to continue in their lucrative posts while vigorously opposing government economic policy.

The electricity board has been accused of failing to respond promptly to the soaring demand for power created by Thailand's rapid growth of industrialisation. Electricity demand is expected to rise by about 15 per cent this year with reserve generating capacity falling from around 50 per cent *three years ago to single* figures.

An electricity spokesman said recently that demand last month had been running at 6,669 MW while what he described as "dependable production capacity" was about 6,574 MW. Thailand's maximum generating capacity is 6,894 MW. The risk of local or even national power failures was therefore increasing by the day.

Cabinet members fear that extended power blackouts would damage Thailand's popularity with foreign investors. They claim the electricity authority erred in its forecasts of future demand and was compounding its errors by refusing to admit a role for the private sector in power generation.

Senior Thai civil servants have said that without privatisation the electricity board would not be able to mobilise enough capital to complete its long list of projects. The victory of the privatisation lobby was marked by the appointment to the board of Dr Phisit Pakkasem, the newly-appointed secretary general of the National Economic and Social Development Board and one of the country's most vigorous advocates of privatisation.

The cabinet is having a similar and so far unsuccessful battle with the board of Thai Airways International which claims that it can finance new aircraft purchases without recourse to privatisation.

The trigger for the electricity sackings is believed to have been a row between the board and ministers over an offer from China to construct a 300 MW lignite power plant. Cabinet members favoured the scheme but it was rejected by the board on the grounds that the technology was dated.

De Kock to quit SA Reserve Bank

By Anthony Robinson in Johannesburg

DR Gerhard de Kock, who played a key role in restoring South Africa's financial credibility after US banks foreclosed on their loans in August 1985, is to step down as Governor of the SA Reserve Bank at the end of October, on grounds of ill-health.

The 63-year-old Harvard-trained economist, who has run the bank since 1981, is to be succeeded by 54-year-old Dr Chris Stals. The latter spent 30 years in the bank, rising from clerk to senior deputy governor, before transferring to the Treasury as director-general in September 1985.

Dr Stals, who as chairman of the debt standstill co-ordinating committee has been responsible for re-scheduling the $14bn of foreign bank loans frozen by the partial debt moratorium, was recently appointed special economic adviser to the Minister of Finance, Mr Barend du Plessis. He was widely expected to succeed Dr de Kock who hoped to retire at the end of 1990. Dr de Kock said yesterday his health would not permit him to complete 20 years as deputy and then governor of the bank.

President P W Botha announced the impending resignation after a cabinet meeting which recorded its appreciation of Dr de Kock's services and appointed Dr Stals his successor.

South Africa faces a bunching of debt repayments over the next 30 months when around $4bn of its total outstanding $21 bn debt falls due. Foreign bankers, who have already agreed two partial rescheduling agreements, are expected to agree another before June 1990 when the three-year debt arrangement ends. In a recent FT interview Dr Stals revealed that he intends "putting something creative on the table" to obtain more from foreign bankers *than a limited capital repayment arrangement.*

After an $11bn capital outflow and $6 bn in capital repayments over the last four years, the authorities are hoping that South Africa's improved international standing, following peace in Angola and moves towards Namibian independence, will re-open the doors to resumed borrowing, albeit on an initially modest scale.

Meanwhile the latest Reserve Bank quarterly bulletin, released yesterday, reveals how a surge in government spending and politically motivated pay increases for civil servants is undermining efforts to dampen the economy and reduce the strain on the balance of repayments.

Although the rise in GDP slowed to 1.5 per cent over the first quarter from 5 per cent in 1988, the rate of gross domestic expenditure soared 6 per cent "reflecting a spurt in real government consumption expenditure and a reversal to significantly positive real inventory accumulation." But real household spending on consumer durables, which rose by 14.5 per cent over the last quarter of 1988, fell by 2 per cent in the first quarter, reflecting the impact of higher interest rates and credit curbs on the private sector.

De Kock: a little golf

The finest hour of Gerhardus Petrus Christiaan de Kock, the full blooded Afrikaans name of South Africa's retiring Reserve Bank governor was when he kept his humour, his nerve and his dignity as half the world banking community was rushing for the South African exit in August 1985.

US banks led by Chase Manhattan, led the way on the principle "if you are going to panic, panic first". The exodus turned into a flood after President P W Botha's ill-fated, finger-wagging "don't push me too far speech" to a world-wide television audience on August 15. As the banks sought to call in their $14bn outstanding loans Pretoria was obliged to close the markets, declare a partial debt moratorium and re-introduce a two-tier financial/commercial rand system.

Amid the turmoil Dr de Kock slipped quietly out of the country and padded around the banking halls of Europe and America asking bankers to calm down. South Africa would continue to pay all interest on outstanding loans and keep them "performing" on the books.

When he returned exhausted he held a press conference where he answered all questions with his usual unflappable, drily humorous self. No country, he observed, could repay all its debts on the nod; and South Africa was underborrowed on all technical analysis. But South Africa was forced, in his words, "to act like a little Switzerland" and proceeded to repay the equivalent of 3 to 5 per cent of GDP back to creditors every year.

Mr de Kock, whose father was also Reserve Bank governor, hopes to play a little golf after he retires. Many will say that's the least he deserves.

Decoded simplicities of a five-year plan

By Anthony Robinson

SOUTH AFRICA'S ruling National Party yesterday unveiled a five-year plan on which it will base both its campaign for re-election and its strategy for a negotiated black-white power sharing agreement.

It will be spelt out in greater detail by Mr F W de Klerk, the NP leader, when he sets the party's election campaign rolling at today's federal congress in Pretoria.

Written in deceptively simple style the content is long on high sounding phrases. Like cable-TV every line requires a de-coder.

The tone is set by the first line which reads "South Africa is one undivided state with one citizenship for all" – which is true only if one ignores the existence of four so-called "independent homelands" whose 8m inhabitants have been deprived of South African citizenship and made citizens of notional states, not recognised internationally and divided like a patchwork quilt.

Sentence two continues: "Every South African citizen has the right to participate in political decision-making on all levels of government which affect his interests, subject to the principle of no-domination." Blacks in particular will question the existence of such a right when they do not have *a vote for the central parlia*ment which is a racially segregated body with separate houses for whites, Coloureds and Asians. In a country dominated for 300 years by the white minority, the principle of no-domination is usually interpreted as "a continuing veto power for whites".

The plan contains statements about common values, of which the most typical is the pious observation that "diversity in unity can in fact *be enriching and beneficial*". Promoting a set of common values is one of the "key objectives" set out in the document. Another is "to engage recognised leaders of all groups committed to the pursuit of peaceful solutions in negotiations *about a new South Africa*". It does not clarify what constitutes a "recognised leader" and gives no indication whether men such as Mr Nelson Mandela or other jailed and exiled nationalist leaders come into that category.

The three key sections of the plan cover the NP's policy towards group, meaning ethnic, rights, its thoughts on reforming the legislative and executive process and the new emphasis on a bill of individual rights to buttress group rights. In all these areas the plan indicates greater flexibility than before. While accepting for the first time the right of individuals not to belong to any group, the plan will ensure the continuance of ethnically pure residential areas, schools and other facilities – what the rest of the world still understands as apartheid.

Bonn seeks to block Iran chemical cargo

WEST GERMANY said yesterday it would try to prevent the shipment of a chemical used to make deadly mustard gas from reaching Iran under a deal arranged by a West German company, Reuter reports from Bonn.

Mr Herbert Schmülling, government *spokesman, told a* news conference the chemical cargo – 237 tonnes of thionyl chloride manufactured in India – was still stored in India but due to be shipped to Iran on a West German-owned freighter next month.

The Bonn Government launched an inquiry into the company, Rheineisen Export of Düsseldorf, after receiving US allegations that it co-ordinated the sale to Iran.

The Foreign Ministry said on Tuesday that at West Germany's request, Iran had withdrawn a diplomat from Bonn who Washington said was involved in the deal.

Mr Schmülling said the Government was trying to stop the shipment with Rheineisen's help.

A Transport Ministry spokesman said, however, that stopping the shipment would be legally difficult because the freighter was now sailing under a foreign flag.

He said he did not know the ship's name nor the nationality of the flag.

On Tuesday, State Department officials said Washington was pressing Bonn to stop the transaction.

Iran used mustard gas in its eight-year war against Iraq.

West Germany and the US banned exports of thionyl chloride to curb the accumulation of chemical weapons by unstable Third World countries.

Mr Schmülling said it was unclear whether Rheineisen had broken West German export laws.

Industrial index up in Japan

By Yuriko Mita in Tokyo

JAPAN'S industrial production recovered in May after steep falls in April, according to the Ministry of International Trade and Industry, reinforcing the view that the economy is continuing its expansion.

The seasonally adjusted production index rose 0.9 per cent from the previous month to stand at 119.3 (1985=100). In April, it had dropped 3.8 per cent, in part due to the introduction of a 3 per cent value added tax.

Capital goods output in May rose *0.2 per cent while* construction goods were up 1.1 per cent. Durable consumer goods shipments dropped 2.5 per cent, reflecting slower exports of small cars.

Ministry officials expect industrial output to rise 1.8 per cent followed by a 1.3 per cent setback in July.

Swapo says voters face intimidation in Namibia

MR SAM NUJOMA, leader of the South West Africa People's Organisation, yesterday accused South Africa of using members of a counter-insurgency unit to intimidate voters in Namibia, Michael Holman writes.

Mr Nujoma, speaking at a press conference in London, said that the force known as "koevoet", the Afrikaans for crowbar, was destroying crops and killing Swapo supporters. The unit, which won a reputation for brutality during the territory's guerrilla war, was supposed to have been disbanded as part of the UN-supervised transition process leading to independence elections in November.

Mr Javier Perez de Cuellar, the UN Secretary-General, has warned that the unit's activities could undermine the transition.

Mr Nujoma raised the issue during a 40-minute meeting earlier in the day with Sir Geoffrey Howe, the Foreign Secretary. A British spokesman said that Sir Geoffrey told Mr Nujoma that Britain has "repeatedly" raised the matter with Pretoria, and stressed the need for all parties to do nothing to obstruct the independence process.

Asked about post-independence links with South Africa, Mr Nujoma said that a Swapo government would look at ways of reducing trade and transport links with South Africa. He called for an intensification of economic sanctions against Pretoria.

He held out the possibility that an independent Namibia might apply for membership of the Commonwealth.

Bank of Korea plans won float

THE BANK of Korea, the South Korean central bank, has proposed ending the won's controlled float by the second half of 1990 and that commercial banks then be allowed to set their own rates freely, Reuter reports from Seoul.

Bank officials said the central bank's detailed proposal to the government on liberalising the foreign exchange rate system advises that the currency should be freely convertible by mid-1990.

The Bank of Korea's proposal said South Korea should adopt the Taiwanese foreign exchange system before it liberalised the market next April. In Taiwan, foreign exchange banks set their own currency rates which are based on the previous day's trading and allow a limited range of fluctuation.

The officials said they want the won to be used in trade in services this year, then in commodities trade by early 1990 and finally, in capital transactions by mid-1990.

Currently the central bank fixes foreign exchange rates daily, largely based on a secret trade-weighted basket which supposedly reflects the flows of the main currencies.

The officials said the present basket pegs the won too closely to the dollar and did not contain the currencies of its rival trade partners, such as Singapore, Taiwan and Hong Kong.

"The proposal was made because too many restrictions could severely hamper development in the foreign exchange market," one official said. "Korea is becoming increasingly isolated in the international financial community."

To foster the foreign exchange market, restrictions should be lifted on futures transactions for financial products and on speculative investments, they said.

Tunis restores political rights

By Jihan el-Tahri in Tunis

THE TUNISIAN parliament has ratified a general amnesty bill restoring political and civil rights to 5,416 people condemned by the former regime for their political views.

Members of the Islamic movement, Nahdha, stand to be the main beneficiaries of the general amnesty. Thousands of Moslem activists belonging to the Nahdha party, formerly known as the Mouvement de Tendance Islamic, were imprisoned and stripped of their political and civil rights during the era of former President Habib Bourguiba. The mass arrest of Moslem activists is said to have been a main catalyst for Bourguiba's removal in November 1987.

The amnesty bill stipulates that the beneficiaries of the law, for state security reasons, will not be reinstated in their former jobs, and it excludes people accused of high treason, violence and corruption. Mohamed Mzali, former prime minister under Habib Bourguiba, and two former cabinet ministers – Tahar Belkhoja and Driss Guiga – are not to benefit from the amnesty law.

While President Zine al-Abidine Ben Ali released all political prisoners when he took over power on November 7 1987, many Tunisian activists, including all leaders of the Islamic movement, remained stripped of their political rights and have until now been unable to play *a full part* in political life.

The Tunisian government refused to legalise the Nahdha party, the country's largest opposition grouping, earlier this month on the grounds that 15 members of the movement's leadership remain stripped of their political rights.

The refusal, however, left the door open for an eventual appeal by the Islamic movement, which won 13 per cent of the national vote in legislative elections held on April 2.

President Ben Ali promised after his takeover to democratise the political system and allow a multi-party system in Tunisia. While six opposition parties have been legalised since November 7, all 141 seats in parliament remain occupied by the ruling party.

Lebanese parliament is urged to meet

By Andrew Gowers, Middle East Editor

THREE Arab leaders, continuing a desultory effort to resolve Lebanon's civil war, are trying to arrange a meeting of the Lebanese parliament outside the country to discuss political reforms.

At a meeting in the Algerian port of Oran on Tuesday night, President Chadli Bendjedid of Algeria, King Fahd of Saudi Arabia and King Hassan of Morocco proposed that the parliament meet in a location chosen by its members.

They agreed to dispatch their foreign ministers to Syria and Iraq – which back opposing sides in the civil war – to pave the way for such a gathering.

However, the leaders, who were asked to continue Arab League mediation efforts by last month's Arab summit in Casablanca, appear to be making little headway towards lifting naval blockades and ending the sporadic shelling in and around Beirut.

They also appear to be receiving little co-operation from General Michel Aoun, the Christian army commander who is one of Lebanon's two rival prime ministers, and from the Syrian Government, which supports the Moslem militias.

Without an end to the reciprocal blockades at the very least, serious discussion of reform is unlikely if not impossible. Syria is believed to have offered to lift its blockade of Christian ports if Iraq agrees to stop sending arms to Gen Aoun, but the signs are that Iraqi weapons supplies are continuing.

Western observers are also sceptical that Lebanese MPs will be able to agree upon an acceptable venue for any meeting.

Jordan struggles with an economic and political tinderbox

Two months after the riots the true scale of the country's problems is beginning to sink in, writes Lamis Andoni

TWO MONTHS after rioting over official price increases shook several Jordanian towns, the full enormity of the task facing the country's decision-makers is sinking in.

The riots, sparked off by the initiation of an austerity programme agreed with the International Monetary Fund in April, may have helped to topple the unpopular Mr Zaid Rifai as Prime Minister. But his replacement, Sherif Zaid ben Shaker, a distant cousin of King Hussein, is confronted with exactly the same problems and pressures as he seeks to reschedule Jordan's foreign debt, restructure the economy, and adjust the country's political system to absorb wider popular participation.

His Government, still struggling to eke out scarce foreign currency *reserves, remains committed to the* IMF programme, which is coupled with $250m in standby credits from the Fund and the World Bank. The controversial price rises for fuel and other commodities stand.

But the country at large has only recently woken up to the precise scale of the problem. Since the new Government took office, it has been revealed that Jordan's foreign debts stand at $8.1bn rather than the previously accepted figure of $6.5bn. Worse still, it was disclosed that one third of the country's gold reserves had been secretly swapped to secure foreign exchange for the Central Bank last October.

The revelations, not clearly explained, underscored the former Government's failure to confront Jordanians with the true nature of the country's financial difficulties.

"Swapping the gold was certainly an unwise step," commented a Jordanian minister. Some local personalities are demanding a thorough investigation into how the country's debts rose to the current relatively high level given Jordan's population.

The most immediate problem is the low level of reserves, reflected in continuing pressure on the dinar. The currency's black market value has fallen to an all-time low of $1.30 in the past two weeks, compared with an official rate of $1.70 now and $2.60 as recently as October.

Real relief from this hand-to-mouth existence – either locally generated or through foreign financial assistance – is scarcely in sight. Following the formal end of a 10-year pledge of financial assistance to the "front-line states" from other Arab countries, King Hussein's diplomacy has this year secured Arab aid in cash and kind worth around $200m – from Iraq, Saudi Arabia, Kuwait and Oman. He may obtain more once Jordan gains IMF approval for measures to reduce its *budget deficit and approaches the* Paris Club, as expected next month, to reschedule its government to government debt.

But this rescheduling will only bring a breathing space to prepare for the next, much more complex step of restructuring the economy. A team from the World Bank was recently in Jordan exploring possibilities for promoting export-oriented local industries. Given Jordan's meagre natural resources (apart from phosphate and cement) such a transformation will take a long time.

Meanwhile the Government desperately needs to generate more revenue, and is studying possible tax reforms. In view of the April riots, it is acutely conscious of the need to spread the pain and promote a fairer distribution of wealth.

Although *Jordanians are not poor* by the standards of the developing world, social frustration is on the rise in a country where students form one third of the population, and unemployment currently exceeds 17 per cent of a workforce itself growing by 5 per cent a year.

The spectacle of long queues in front of the US embassy in Amman applying for visas has become a sign of the times. The embassy reported an increase of at least 50 per cent in visa applications this year, most of them from the unemployed young.

The conundrum facing Mr Ben Shaker however, is as much political as economic. Many Jordanian politicians argue that the Government would go a long way towards easing the current uncertainty by relaxing restrictions on political freedoms, improving accountability, and ultimately fostering free elections.

The new cabinet, which includes a number of respected economists and supporters of democratic reforms, is in general accessible to the public *and has already allowed* more freedom of expression. But as the economic crisis continues, there is a growing feeling that change is slow and far from fundamental.

Mr Ben Shaker has lifted security and political restrictions on five banned journalists, but the Governemnt stopped short of reversing its predecessor's press measures which amounted to a nationalisation of Jordan's two main dailies. Other more serious restrictions involve the banning of suspected political activists from work or travel and the confiscation of passports.

Prominent Jordanian politicians, both inside and outside the Government, argue that security constraints can only aggravate social and political tensions at a time of economic hardship.

There is also the question of corruption. Many Jordanians are convinced a significant part of the billions of aid dollars that poured into the country in the last decade has either gone to waste or into lining important people's pockets.

As part of a crackdown on corruption the Government has removed many second-tier bureaucrats. But economists and politicians argue that the presence of an effective system of accountability is the only viable solution.

But here too uncertainty prevails. After the riots, and an upsurge of uncomfortably direct public criticism, King Hussein promised to hold the first parliamentary elections in 22 years, but no date has been set.

There is also a dispute about the electoral law. The current draft has been criticised for failing to provide proportional representation in *major* cities, and for including restrictions on the right of citizens to run for election. The treatment of such issues as these will be seen in Amman as important tests of the system's ability to adapt – and by implication, of Jordan's chances of overcoming its economic *crisis*.

COMPANY NOTICES

EAST RAND PROPRIETARY MINES, LIMITED

RAND MINES

Registration No. 01/00773/06
(Incorporated in the Republic of South Africa)

CONTINUATION OF MINING OPERATIONS

Agreement has been concluded with the government and major creditors, in order that the company may continue its mining operations and the following are the main features:

(a) the existing loans of R280 million from commercial banks, as well as an additional loan of up to R20 million to be made by Rand Mines Limited ("RML"), will be repaid out of surplus cash flow available to the company but will not be called up until the year 2002, except if deferred and capitalised interest on the loan of R220 million from a consortium of commercial banks exceeds R67 million and after consultation with the government;

(b) the existing interest subsidy paid by the government – i.e. above 7% per annum up to a maximum of 17% per annum – will continue until 31 December 1992;

(c) from 1 July 1989, that portion of interest not subsidised by the government in respect of the consortium loan, and interest on all other loans will be deferred and capitalised (up to a maximum of R67 million for the consortium loan) until it becomes due and payable at the latest in three equal tranches during 1993, 1994 and 1995;

(d) the aggregate amount drawn against the existing loan facility of R70 million made available by RML, of which R30 million has previously been converted into "B" class variable rate cumulative redeemable preference shares, will be applied in subscription for further shares of that class; and

(e) in respect of the pumping of extraneous water, the government will provide a subsidy of R8 million per annum and a loan of R10 million each year (each loan will be interest free if it is repaid within five years), which assistance will be reviewed annually.

The directors are of the opinion that if, during the next six months;-
- the tonnage treated and recovery grades are as predicted; and
- the gold price recovers to an average of approximately R33,500 per kilogram and grows steadily thereafter;

the arrangements set out above will enable the mine to return to profitability in the next few years.

The overall arrangements will be reviewed periodically and alternative arrangements may be adopted where it is in the company's interests to do so.

At the company's request, the listing of its shares on The Johannesburg Stock Exchange, The International Stock Exchange, London, and the Paris Bourse will be re-instated from Thursday, 29 June 1989.

By order of the board
RAND MINES (MINING & SERVICES) LIMITED
Secretaries, per T A CROSS

Registered Office:	London Secretaries:
15th Floor	Viaduct Corporate
The Corner House	Services Limited
63 Fox Street	40 Holborn Viaduct
Johannesburg 2001	London EC1P 1AJ

This announcement has been issued by Laurence Prust & Co Ltd, a member of The Securities Association

JOHANNESBURG
29 June 1989

Member of the Barlow Rand Group

DURBAN ROODEPOORT DEEP, LIMITED

(Incorporated in the Republic of South Africa)
Registration No. 01/00926/06

CURTAILMENT OF UNDERGROUND MINING OPERATIONS

At prevailing gold prices and grades of ore mined, the company continues to incur substantial losses. An application for financial assistance has been referred to the Interdepartmental Committee for State Assistance to the mining industry. This request is under consideration by the government but there is no assurance that an acceptable response to this application will be received.

With no spectacular rise foreseen in the rand gold price, the directors have decided that, in order to limit further losses:
- underground operations will be severely curtailed and the necessary notification has been submitted to the relevant authorities;
- limited underground operations will continue in the higher grade and lower cost areas of the mine. If no financial assistance is granted by the government, it is possible that these operations will not be viable and will also have to be discontinued;
- production will continue with the recovery of gold from sand dumps on surface.

As a result of this reduction of operations, the mine's labour complement will be drastically reduced. Every effort will be made to relocate affected people within the Rand Mines Group and elsewhere in the mining industry.

The company has extensive property interests. An approach has been received from Rand Mines Properties Limited which could result in either the disposal of a major part of this company's assets or an offer to acquire its shares.

Since this company and Rand Mines Properties are associate and subsidiary companies respectively of Rand Mines Limited, the directors have requested that an independent valuation of the company's assets and the extent of its liabilities arising from the curtailment or cessation of mining operations be undertaken in order to facilitate negotiations.

In these circumstances, the directors believe that the best interests of shareholders would not be served if the listings of the company's shares were to be re-instated on the stock exchanges in Johannesburg, London and Paris. By arrangement with those stock exchanges, the suspension of the listings will remain in force.

By order of the board
RAND MINES (MINING & SERVICES) LIMITED
Secretaries per R H PHILLIPS

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This announcement has been issued by Laurence Prust & Co Ltd, a member of The Securities Association

JOHANNESBURG
29 June 1989

RAND MINES

Member of the Barlow Rand Group

RMP

RAND MINES PROPERTIES LIMITED

(Incorporated in the Republic of South Africa)
Registration No. 68/01239/06

CAUTIONARY ANNOUNCEMENT

The directors advise that Rand Mines Properties Limited has approached Durban Roodepoort Deep, Limited, as a result of that company's decision to severely curtail underground operations, with a view to acquiring a substantial part of its extensive property interests or to acquire that company's shares.

Such an acquisition could have an effect on the RMP share price and, accordingly, shareholders and investors are urged to exercise caution in dealing in RMP shares.

By order of the board
S. Mia, Secretary

Registered Office:	London Secretaries:
5 Press Avenue	Viaduct Corporate
Crown Mines	Services Limited
Johannesburg 2092	40 Holborn Viaduct
	London EC1P 1AJ

This announcement has been issued by Laurence Prust & Co Ltd, a member of The Securities Association.

JOHANNESBURG
29 June 1989

RAND MINES

Member of the Barlow Rand Group

WORLD TRADE NEWS

Canada unveils proposals to ease subsidies tension

CANADA yesterday tabled a long-awaited blueprint for more effective control of governments' massive trade-distorting subsidies to their industries and other producers, writes **William Dullforce in Geneva**.

The Canadian initiative represents the first effort in the Uruguay Round trade talks to put together a comprehensive proposal for halting the subsidies race and reducing tensions created by the action of countries to counter subsidies. The blueprint extends the range of subsidies prohibited under the General Agreement on Tariffs and Trade and defines more clearly government assistance deemed not to distort trade.

Rules governing the measures - usually import duties - that Gatt allows governments to apply, to offset the competitive advantages gained by subsidised producers in exporting countries, would be improved. One aim is to prevent governments from exploiting their countervailing rights to harass legitimate trade. On the other hand, tests for deciding if counter action was legitimate would include the displacing of imports in the home market of a subsidising country or in third-country markets.

Export credit guarantee programmes that do not cover their long-term operating costs would be regarded as subsidies on exports. They would be subjected to a stronger obligation to recover their costs.

The Canadians hope their proposal will stimulate the group dealing with subsidies and countervailing duties under the Uruguay Round. Mr Thomas Bernes, Canada's subsidies negotiator, said reaction had been more encouraging than expected. The group has been hampered because its area overlaps with those of other groups, in particular with that handling the reform of agricultural trade, where subsidies are a core issue.

The hope is that the Canadian paper can resolve a difference of approach to subsidies within Gatt. Some countries, the US above all, want to abolish subsidies or at least drastically tighten the rules. Washington's recent campaign against government finance for the European Airbus illustrates its attitude.

Developing countries and others stress what they regard as an abusive use of Gatt's countervailing mechanism. They point out that the US has originated 90 per cent of the countervailing duties imposed this decade.

Gatt's subsidies code, which emerged from the previous Tokyo Round of trade liberalisation, has proved inadequate and the Gatt secretariat has reported a substantial increase in the use of trade-distorting subsidies in the 1980s. Canada's proposals would curtail the subsidies, discipline the use of countervailing measures, revise the dispute settlement procedures in Gatt's code and establish a standing panel to monitor compliance with the rules. They also offer poorer nations some flexibility in the use of subsidies to promote development.

A basic condition for counter-action would be financial support from a government to the exporter. Government provision of equity capital would not be considered a subsidy if the shares were purchased at market prices. The amount of subsidy in a government loan would be measured as the difference between the interest rate charged and the comparable interest rate that a private lender would charge. Use of countervailing duties should be precluded, the Canadians propose, when the subsidy is less than a given per cent of the unit value of the imported goods.

Countervailing duties would lapse automatically after five years, unless a review was conducted. But even after a review the duties could be renewed for a maximum of three more years.

ICI aiming to double business in Far East

By Peter Marsh

IMPERIAL Chemical Industries, Britain's biggest chemicals group, plans to step up investment in the Far East as part of an effort to double the proportion of its sales from this region by the end of the century.

ICI, with sales last year of £11.7bn, gained only about 8 per cent of this figure from Japan and the rest of south-east Asia, not including Australia and New Zealand.

Mr Chris Hampson, ICI director in charge of its operations in the Far East, said the company was aiming to gain 16 per cent of total sales from the region by the year 2000.

Mr Hampson said that 40 per cent of total growth in the world chemicals industry was likely to come over the next few years from Japan and other countries in the Pacific Rim. It was vital, therefore, for ICI to step up its presence.

Besides Japan, the most promising countries for growth in chemicals demand, according to Mr Hampson, include South Korea, Taiwan, Hong Kong, Singapore and Malaysia.

ICI's plans for the Far East - mirroring similar ideas under study by several other big Western chemicals groups - are likely to involve investments in plants making specific, non-commodity chemicals geared to fast-growing industries in Japan and neighbouring countries.

Mr Hampson said ICI was particularly keen to expand in areas such as dyestuffs and textiles chemicals, chemicals whose use is linked to the expanding production of fabrics and other clothing materials in the Far East.

Other product areas in which ICI believes it is in a good position to expand in the Far East include polyurethane plastics and specific raw materials for polyester fibres.

ICI clean up, page 7

Turkey fixes credit line

By Jim Bodgener in Ankara

A MANDATE for a three-year $150m general purpose line of credit has been awarded by the Export-Import Bank of Turkey (Eximbank) to Citibank of the US. The proceeds will back up the exchange deal Turkey has with the Soviet Union for the import of natural gas.

At $\frac{5}{8}$ over Libor the funds will be linked to the 30 per cent of payments for the gas that Turkey makes in cash, the remainder being in goods and services.

Turkey has sought to pay the whole bill in goods and services. A $150m line of credit agreed with the Soviet Union in April will go far towards achieving this.

However, a $350m credit to fund construction contracts for Turkish companies in the Soviet Union is making less headway because of Moscow's preference for consumer goods and borrowing founded on trade visibles.

Italian exporters wait for the state to get its supporting act together

The trade deficit points to structural industrial weaknesses, writes John Wyles

THE HOLLOW sounds emitted by many gatherings of Italian industrialists these days are more often than not due to beating of breasts about rising costs and growing competitive pressures. Those anxious to drive the point home are beginning to cite the nation's trade deficit, which in the first four months this year is close to the L12,875bn (£5.9bn) total for all 1988.

Pininfarina

But lamentations from Mr Sergio Pininfarina, the president of Confindustria, the main Italian business organisation, about a 10 per cent rise in labour costs owe more to the imminence at the end of the year of the triennial round of national pay negotiations than to solidly-based fears that Italian companies are losing ground in domestic and foreign markets.

There is much evidence to suggest the contrary: that for 15 years Italian exporters have held on to and in rising cases expanded their share of those world markets in which they excel - textiles and clothing, shoes and leather goods, wood, furniture and engineering products. Overall, Italy's share of world trade in manufactured products, now around 8 per cent, has declined slightly this decade but it is still higher than it was 15 years ago. West Germany, France and Britain all have a lower share.

This is not to deny that there are important structural weaknesses in Italy's trading position which are highlighted by the rapid deterioration in the balance of trade figures. The first, as Mr Renato Ruggiero, the Minister for Foreign Trade, explained in an interview with the Financial Times, is a propensity to import when domestic economic growth is running above 2.5 per cent a year.

Volume growth of imports last year was 7.1 per cent (11.1 per cent in value) against a strong rise in export volumes of 5.9 per cent (11 per cent in value). In the first four months of this year exports have risen by 18.8 per cent in value terms and imports by 24 per cent. This surge of imports reflects not only the country's need to import 80 per cent of its energy requirements at a time of a rising dollar but also large and traditional deficits on the food account and in sectors such as chemicals.

Above all and very positively, the rising deficit highlights "the major re-equipping of Italian industry which is now underway with imports of advanced technologies," says Mr Ruggiero. According to a recent report from the Institute of Foreign Trade (ICE), the largest single sectoral growth in imports last year was the 15.7 per cent rise in investment goods.

Italy has to import because it cannot produce enough of these goods. The country is structurally ill-equipped for meeting domestic and foreign demand for substantially advanced technology products such as office equipment and electronic goods. One Olivetti is clearly not enough, although according to the ICE report domestic producers of office equipment and electronics products have managed to expand their domestic market share as measured by constant prices, although they have surrendered 13 percentage points of share in nominal terms over the last 15 years.

The relative under-capacity of Italian industry in technological sectors is illustrated by the fact that such exports account for 12.1 per cent of the Italian total compared with 15.8 per cent for the EC as a whole, excluding Italy, and 20 per cent for all industrialised, open-market countries. The same holds true for the motor industry, notwithstanding the impressive growth of Fiat - vehicles and components accounted for 7.1 per cent of Italian exports in 1986-87 against an EC average of 12.9 per cent and 15.1 per cent for all industrialised market economies.

This weakness is the key to the fact that since 1983 Italian exports have lagged behind the annual growth of world trade by about 2 percentage points.

Italian exports may not have kept up with world trade but its trade deficits have maintained a respectable downward trend from a peak of 3.8 per cent of Gross Domestic Product in 1980 to a near balance of 0.4 per cent in 1986, rising to a modest 1.2 per cent last year. Apart from falling oil prices, the reason is that Italian producers have been more than holding their own in battles with newly industrialised countries determined to make inroads into the markets for Italy's traditional products.

In this decade Italy's shares of world manufacturing exports in five sectors - office equipment, electronic goods, vehicles and components, shoes and leather goods and rubber and plastic products - have fallen by margins of 0.1 per cent to 1.7 per cent but have risen in each of the other 11 product categories.

All this has been achieved without the export aids and insurance guarantees available in West Germany, France and Britain. On the promotional side, Mr Ruggiero has made a start by reforming ICE from a sleepy, rather politicised, agency into a more professionally managed and, he hopes, results-oriented agency.

The next priorities are to improve the quality of financial services available to exporters, including an expansion of the activities of Sace, the export credits insurance agency. He regards such reforms as obligatory as the European Community's single market looms. The last 15 years have proved what sharp exporters the Italians are; many now dream of what they could do with an efficient state behind them.

Japan ignores US protectionism claim to boost domestic satellite industry

By Yuriko Mita in Tokyo

JAPAN'S Ministry of Posts and Telecommunications (MPT) has given the green light for independent development of a new generation of communications satellites, called CS-4, in spite of complaints from the US about protectionism in Japan's satellite market.

The decision follows a report by a space communications advisory panel to the ministry stressing the need for Japan to continue strengthening its own technological foundations for communications and broadcasting satellites.

Last month, the US government, in implementing the Super-301 clause of last year's trade act, singled out satellites as one of three Japanese markets where imports were at an unfair disadvantage. It argued that the Japanese government forced public agencies to buy satellites from within Japan to nurture local manufacturers. Japanese government officials have insisted that its policy favouring the development of the domestic satellite industry will not preclude government agencies from continuing their purchases of satellites and parts from other countries.

The panel has recommended that further development should be targeted on the development of the CS-4 communications and BS-4 broadcasting satellites in 1990 and 1991. The ministry has announced it would like to launch the CS-4 followed by a back-up satellite in fiscal 1995.

● Japan should co-operate more in international space development projects and draw more on foreign technology for its own space projects, according to the Space Activities Commission, an advisory body to the Prime Minister.

Colombo port at standstill over pay deal, Indian goods boycott

By Mervyn de Silva in Colombo

REGULAR joggers along Colombo's seafront often end their morning exertion by counting ships. Over the weekend, there were nine vessels lined up outside the port, many of them loaded with Indian cargo.

Port workers have been refusing to handle Indian cargo, respecting an appeal issued by the DJV (the Patriotic People's Movement), the military wing of the extremist Sinhala JVP.

Though the "boycott" covers a wide range of goods (textiles, pharmaceuticals, buses, trucks, and popular food items), exports from India add up to less than five per cent of Sri Lanka's imports. The campaign against Indian imports has been so effective that all Indian movies have been taken off the screen by cinema owners, and even state-run television suspended a popular Tamil series.

At the port, the queue of ships had lengthened and on Tuesday 12 ships were waiting to be unloaded. By Wednesday the number had risen to 19, not all of which were carrying Indian cargo.

Port authority officials, who claim that Colombo is now the busiest and most modern port in South Asia, blamed the transport strike for a 40 per cent turnout of port labour. A strike by some 30,000 employees of the state transport board entered its third week on Monday.

Their main demand is a minimum wage of Rs2,500 ($100). The number "2,500" is painted in red on the city's walls. The wage demand, though modest, is an inspired political gimmick as Rs2,500 was President Premadasa's most popular polls promise back in December when he offered a poverty alleviation programme called *Janasaviya* for 1.4mn of Sri Lanka's poorest families.

Although the International Monetary Fund frowned on the programme, he went ahead pledging Rs1,400 in cash and the balance as compulsory savings for a family of five without a steady wage-earner.

Last month, the President also agreed to raise the take-home pay of junior university employees to Rs2,435.

The campuses have been closed for three years by strikes led by pro-JVP student unions. The JVP has no real trade union base. Yet, the magic "2,500" slogan, together with the JVP's pressure-and-terror tactics, resulted in a transport strike, supported by "token" and "sympathy" strikes in the public sector, sudden work stoppages and wildcat strikes in leading private firms. The Government cannot afford the pay rise.

The IMF has insisted on strict spending curbs before it considers releasing the second instalment ($66m) of a vital loan. With inflation rising, and foreign exchange reserves at their lowest level this decade, the IMF urges massive devaluation.

Premadasa's response has been to re-introduce the five-year state of emergency which lapsed in January, and to bring the army out of their barracks. He gave an ultimatum to the strikers - return to work by Monday or lose their jobs. The strikers preferred to defy the government rather than incur the JVP's wrath as its reprisals can be swift and merciless.

An emergency regulation which carries the death penalty for any "threat of death or bodily harm" through speech, poster or leaflet came into effect yesterday. The opposition parties have asked the president to withdraw the dismissal order and to open talks with the transport unions.

Premadasa's confrontation with the unions and the JVP aggravatesthe crisis caused by his virtual marching orders to the 45,000 strong Indian peace-keeping force. Mr Rajiv Gandhi, the Indian Prime Minister, argues that the issue comes under the India-Sri Lanka "peace accord" and is thus a bilateral matter requiring consultations.

Sri Lanka is boycotting the seven-nation South Asian foreign ministers meeting this week in Islamabad. "The edge of anarchy," is how plantations minister, Mr Gamini Dissanayake describes the situation.

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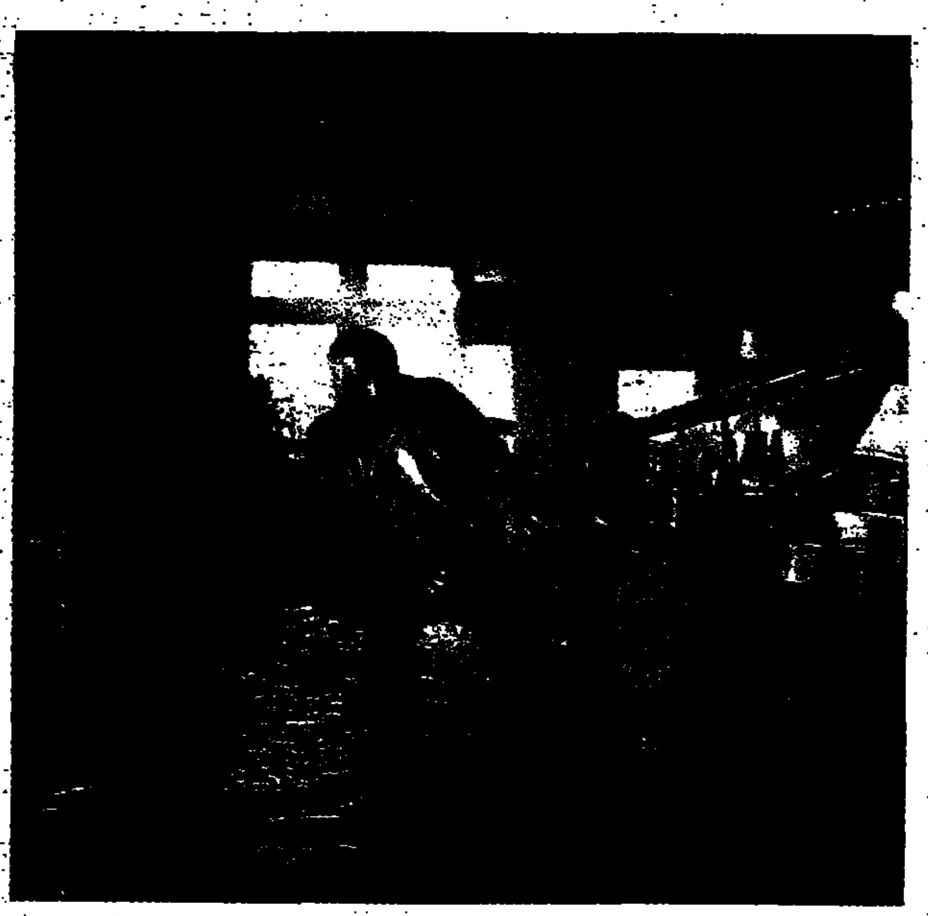

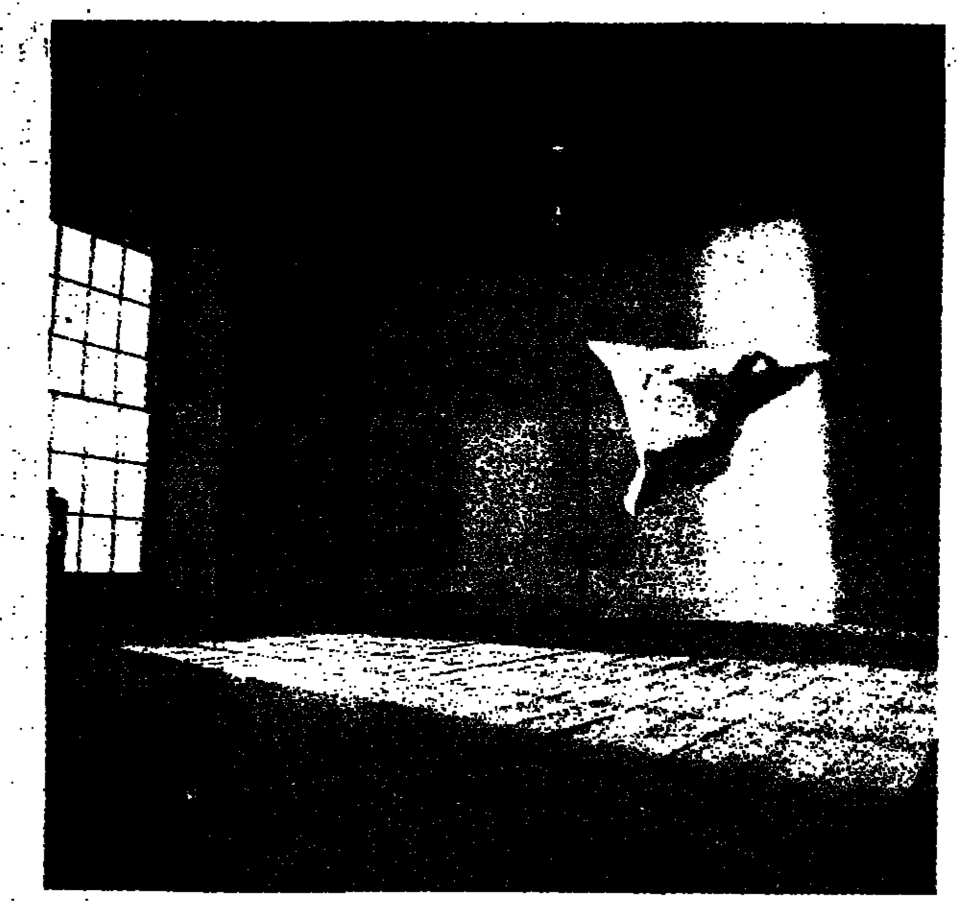

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GUARDIAN ROYAL EXCHANGE

One step ahead, then another

BSB shareholders explore link with Murdoch's Sky

By Raymond Snoddy

SEVERAL leading shareholders in British Satellite Broadcasting are exploring the possibility of co-operation with Mr Rupert Murdoch's Sky Television to try to avoid a damaging and costly battle between the two rival satellite television systems.

One significant BSB shareholder, who asked not to be named at this stage, said the aim was to see if there was a way to make it possible for the services of both BSB, which plans a launch in the spring, and Sky Television to be received on a single aerial.

Under current plans the rival systems are incompatible.

The small informal group is being advised by Mr James Lee, the media consultant of the Boston Consulting Group and former chief executive of Pearson Longman.

Mr Lee, who led one of the unsuccessful consortia for the satellite broadcasting franchise ultimately won by BSB, warned at a conference earlier this month that the economics of satellite broadcasting had been destroyed at a stroke by the competition between Sky and BSB for programme and film rights.

"It is reasonable to predict that neither competitor will be able to break even until one has been forced out," Mr Lee said.

The consultant who was involved in the now-aborted joint venture plans drawn up by The Disney Channel and Sky Television suggested that a partial merger between BSB and Sky made complete sense from a marketing and financial point of view.

The two groups, Mr Lee suggested, could set up a joint subscription film channel with a single customer management operation while competing with their advertising-financed channels.

For such a merger to be viable, either BSB would have to abandon its separate satellites and join Mr Murdoch on the 16-channel Astra satellite or BSB would have to persuade Sky to move to its system.

The two BSB satellites could be turned into a 10-channel, high-power system by pooling the five direct broadcasting channels allocated by international agreement to the UK and Ireland. Government approval would have to be sought for this and for the concentration of media power of media power a joint BSB-Sky project would involve.

There have also been informal approaches from individual representatives of Sky Television to individual BSB shareholders on the merit of a joint satellite venture.

The main BSB shareholders include the Bond Corporation of Australia, Granada, the UK leisure and entertainments group, Pearson, publishers of the Financial Times, and Reed International, the UK printing and publishing group.

It is unclear how many of BSB's 10 shareholders would be sympathetic to the idea of co-operation with Mr Murdoch. Some of the major shareholders such as Granada are still confident that BSB can make it on its own despite the fact a further £400m has to be raised in addition to the £423m already committed.

The financial pressures could, however, grow on Mr Murdoch if losses were to continue to run at around £150m a year.

For BSB the outlook would begin to get serious if the rescheduled launch, now thought to be March, were to slip even further because of technical difficulties.

It is clear that a merged satellite television operation would stand a much greater chance of commercial success at least in the short to medium term than a head-on contest which will split the market.

Britain and Brazil agree rainforest project

By Robert Graham

BRITAIN and Brazil will next month sign a pioneering environmental agreement monitoring the resources of the Amazonian rainforest.

The agreement will be signed by Mr Christopher Patten, Minister for Overseas Development, during a visit to Brazil from July 4-9. This will provide for Britain's various tropical research facilities to be channelled in a co-ordinated response to requests from the Brazilian Government for studying the rainforest.

Until now, the Brazilian Government has been extremely sensitive about any offers of international help in Amazonia, tending to regard them as interference in domestic affairs. The British Government was among the first to be approached for ideas and has been the first to respond, the agreement being put together in less than three months.

British officials were concerned that wide publicity in the Brazilian press given to reports published in the London Sunday Times newspaper about activities of UK companies in Amazonia might cast a cloud over Mr Patten's visit.

UK telecom retailers in joint venture

By Hugo Dixon

TWO OF the UK's leading mobile communications entrepreneurs, Mr Martin Dawes and Mr Marc Albert, have joined forces to spread cellular communications across continental Europe.

They have formed Martin Dawes Communications Europe, in which each will have a 50 per cent stake.

The new group has already set up embryonic operations in France and West Germany, and plans to expand to Italy, Spain and elsewhere over the next year.

Mr Albert and Mr Dawes have been among the most successful of the UK's cellular service providers, the function of which isto retail mobile communications for Racal Telecom and Cellnet, Britain's two network operators.

Their aggressive marketing-led approach has been a factor behind the spectacular growth of cellular communications in the UK and has also made each man a multi-millionaire.

In most of continental Europe, however, mobile communications have been slow to take off, partly because they have been run as monopoly services.

These markets, however, are expected to take off, after the decision by France and West Germany to license second operators to compete with their monopolies and in the run-up to the launch of the pan-European cellular system from 1991.

Mr Albert and Mr Dawes are setting up operations now to benefit from the expected explosion in demand.

Their initial investment in the venture will be £4m, rising to £10m during the next two to three years. Other UK groups, especially Racal Telecom, are keen to attack the same market.

The group will have two separate businesses beneath it: Eurocellular, which will be managed by Mr Albert, will be responsible for selling cellular phones directly to customers either from shops or by advertising; and Martin Dawes Communications, which will be managed by Mr Dawes, will concentrate on establishing a European network of dealers.

The entrepreneurs say they are confident of good margins on the venture because of the high price of cellular phones on the Continent. Big profits will only materialise from their venture, however, if other European countries adopt the UK practice of allowing service providers.

These not only make a turn on selling equipment, but also get a share of the revenue spent on making phone calls.

Toyota to announce site

TOYOTA, Japan's leading car maker, is expected to announce in the next two weeks that it has chosen Shotton, North Wales, as the site for its planned European engine plant, writes Kevin Done.

The company is planning to invest around Y30bn (£136m) in the plant, which could also be used to produce other automotive components such as steering components and driveshafts.

The plant is expected to create about 300 jobs, but this could be increased later in the 1990s.

The announcement about the North Wales engine plant will follow less than three months after the company revealed its plans to spend £700m to build its first European car assembly plant at Burnaston, near Derby in the East Midlands with a capacity for building 200,000 cars a year by the second half of the 1990s.

The two plants will involve a total investment of about £835m, the biggest Japanese inward investment in Europe.

Rescue cannot shift liability, says Lloyd's

By Patrick Cockburn

THE COUNCIL of Lloyd's, the private insurance market, will not agree to any rescue plan for loss-making syndicates which shifts liability from members affected to members who have escaped loss, Mr Murray Lawrence, the chairman of Lloyd's told its annual general meeting yesterday.

He rejected suggestions that the council of Lloyd's was passive in the face of the mounting losses, now totalling £304m, facing members of the RHM Outhwaite syndicates 317/661.

Mr Lawrence identified the main problem facing Lloyd's as being the 114 years in which syndicates cannot declare final results because of uncertainty over future liabilities. He said Lloyd's council wanted "to ensure that any agent who takes this route does so truly as a course of last resort and never as any easy option."

Mr Murdoch Macleod, a spokesman for RHM Outhwaite, said later that the underwriting agency was frustrated by Lloyd's refusal to discuss a rescue plan it had proposed. He added: "It is very difficult to get Lloyd's off automatic pilot when it comes to talking about unlimited liability."

Criticising the approach of the council to the problem of the open years and Outhwaite Mr John Donner, chairman of Donner Underwriting Agencies, told the annual general meeting that the present Lloyd's system was devised to cope with normal hull, cargo, fire, accident and motor business.

He said, however, that the present Lloyd's accounting system was proving inadequate when it came to US casualty business, where potential liabilities were immense, but future exposure impossible to compute.

This had become clear only since the early 1980s. Members of syndicates or "names" therefore have to pay cash to meet losses which are forecast rather than known to have occurred.

Mr Donner said the solution to the problem of the open years was for claims to be settled on the basis of claims already made.

OBITUARY

Margaret van Hattem: interpreter of politics

MARGARET van Hattem, who died yesterday at the age of 40, was one of the most vivid writers and personalities the Financial Times has seen in the last generation.

She was also a woman of extraordinary bravery. Her determination to continue working and to experience life to the full in the face of the most devastating of illnesses defied belief.

Born in the Netherlands, Australian by nationality and education, and a product of the Reuters news agency school of journalism, Margaret joined the FT's foreign desk late in 1975.

Two years later, she was in Brussels specialising in the common agricultural policy. In 1980, she was transferred to the political reporting team in Westminster. In 1986, she was made East Europe correspondent, based in London.

Journalists are often remembered by their stories and Margaret had her share of good ones.

Her understanding of the CAP at the turn of this decade, when it was the most important story in Brussels, was exceptional both for its grasp of detail and its political feel.

In domestic politics it was her coverage of Ulster that stood out, in which she was undoubtedly helped by her long-standing relationship with Brian Inglis, the author and journalist. She knew all the players, all the angles and all the motives.

She could also lay claim to have been in the summer of 1983 the first political reporter to state unhesitatingly in print that Mr Neil Kinnock would succeed Mr Michael Foot as leader of the Labour Party – and to explain why and how.

Even though her movement as East Europe correspondent was necessarily limited by her illness, the mind and pen were as sharp as ever in some withering editorials and columns on Ceausescu's rape of Romania and and in thoughtful analyses of the changes that Mr Mikhail Gorbachev was bringing to the Soviet Union and to the region as a whole.

She once described Yugoslavia as "a doughnut with a hole in the centre through which fall all unity, co-ordination and hope of efficient management."

But the best journalists are also known for the way stories are told and in this respect, Margaret was exceptional. She loved words and her ability to turn a phrase could render the dense and complex instantly comprehensible.

Thus, she once likened the common agricultural policy to "one of those dinners where everyone shares the bill so you might as well order lobster." Again, on the same subject, "trying to help small farmers

Margaret van Hattem: notable Ulster coverage

by increasing prices further is like jacking up a skyscraper instead of adding a top floor – the cost is enormous and the effect on the small farmers minimal."

There was, perhaps, no finer example of colour writing to grace the FT in many a year than her account, early in 1986, of being roughed up at an Ian Paisley rally in Omagh. It ended as follows: "As I have often had occasion to speak to Mr Paisley and Mr (James) Molyneaux in the Members' Lobby at Westminster, I know them to be prudent, discreet men and am grateful for their prudent, discreet rescue. All the same I will take no more chances. Can someone please send me the words of The Sash My Father Wore?"

Of an early operation against her terminal brain tumour, she wrote: "It was when I caught sight of the surgeon's green wellingtons that mild panic set in. I was prepared for a certain amount of mess in the operating theatre. I had not thought we'd be ankle deep in it."

And, when she was really "into" a story like Ireland, when her understanding, commitment and writing ability all came together at once, the results could be magisterial. Her analysis of the Anglo-Irish Agreement is still shown to newcomers to the FT as the exemplar of how to write a feature.

Above all, there was a passion to Margaret, in her life, her loves, of people, poetry, painting and music, her beliefs and her work. She would fight for all of them with a fierce tenacity and if – just occasionally – this exasperated her colleagues and friends it also engendered enormous respect and even greater affection.

Never more than in her struggle against the tumours which finally killed her. Even near the very end, she spoke of coming back to work, of travel, of ideas. Given the extraordinary way she could spin them all into words, it is a terrible loss that she cannot.

Property agents 'fail to satisfy customers'

By Andrew Taylor, Construction Correspondent

MANY British estate agents are failing to satisfy basic customer requirements according to a survey conducted by Century 21, the world's largest estate agency franchise organisation, said yesterday.

Century 21 is owned by Metropolitan Life, the large US life insurance group and began operating in the UK last year. It has a network of more than 50 offices in Southern England and Northern Ireland.

Mr Harold Hodes managing director of of Century 21 UK said: "Our findings reveal that tasks which should form a standard part of most agents' service simply are not being provided.

"Customers seem uncertain as to exactly what they should expect from agents with many classing as desirable services those which they should be demanding by right."

Specific complaints from customers included the fact that many agents did not accompany potential buyers when viewing properties. Agents also failed to provide details of their viewers' reactions after visits.

Customers said many agents did not provide regular updates on the progress of sales.

Century 21 said clients attributed poor quality service to young, inexperienced staff who were described by some as brash, untrustworthy or simply incompetent.

Mr Hodes said: "While young staff shoulder much of the blame from customers, the problem really lies in a lack of interpersonal and sales skills across the board."

He said customers wanted more selective targeting of buyers for specific properties, as well as advertising of homes in branch windows, local papers and property magazines.

Century 21, which says it is represented in 10 per cent of house sales in the US, has 7,000 branches worldwide including offices in France, Japan, Australia, Singapore and Hong Kong.

Rail disruption set to deepen after strike

By Jimmy Burns and Fiona Thompson

DISRUPTION of British transport through industrial action is set to deepen following the second one-day national rail strike yesterday, which caused widespread disruption in London and other cities.

Leaders of the National Union of Railwaymen will today meet to consider stepping up disruption. Members of the rail drivers' union, Aslef, voted by a 13 to one majority yesterday to go on an official 24-hour strike on London Underground railway next Wednesday.

Mrs Margaret Thatcher, the Prime Minister, accused rail workers of not "giving a damn" about the inconvenience they caused. Her remarks were taken as a further indication that the Government may try to curb public sector strikes.

Mrs Thatcher said in an interview on Mr Rupert Murdoch's Sky Television that it was "absolutely disgraceful" that people in the transport unions did not think about their fellow citizens. The Cabinet is to consider the strikes today.

Mr Norman Fowler, Employment Secretary, said in a speech last night that the NUR was trying to exploit their monopoly position and hold the public to ransom to get their way.

For the second Wednesday in succession, trains throughout the country were halted due to a 24-hour strike by the NUR in its dispute with British Rail over pay and plans to break up national pay bargaining.

There was a limited service of 26 trains on London Underground yesterday because Aslef members did not join the NUR strike. But Aslef later announced that its drivers had voted by 1,262 to 78 for a 24-hour strike next Wednesday.

There was much heavier traffic congestion in London yesterday than during last week's strike. The Confederation of British Industry, the employers' federation, estimated that 75 per cent of workers in the capital had gone to work, compared to 60 per cent last week.

Police estimated that traffic was two or three times as heavy, with long tail-backs on nearly all main roads in and out of the capital. Traffic jams stretched for up to seven miles and motorists cut their working day to get home quicker.

Manchester was the worst hit city outside London, with heavy traffic congestion both in the centre and in the outskirts during day. Tail-backs of up to six miles were reported on the M6 motorway to the north of Birmingham, and long lines of vehicles also built up in Glasgow.

Although support for the rail strike was virtually solid throughout Britain, police reported that traffic in other cities around the country only slightly increased traffic problems.

Mr Jimmy Knapp, NUR general secretary, said the action would continue for as long as it took to get British Rail into serious negotiations. He said support for strikes remained solid and his members would continue "until justice is done."

Mr Knapp said the Aslef vote meant that "it won't be long before we have a totally united stand against both British Rail and London Underground. It's getting stronger by the day."

The NUR conference will today decide on whether to step up strike action, and will also respond to BR's request to attend the Railway Staffs' National Tribunal next Wednesday.

BR has said the dispute can be resolved there alone, but the NUR is opposed because the tribunal can consider only pay. The union is vehemently opposed to separating pay from the linked issue of national collective bargaining.

Delegates stressed this yesterday in a heated debate on negotiating machinery. "This dispute is about defending our union and our union's right to defend us," said Mr Keith Simpson, from Sheffield.

Opposition to the tribunal was voiced yesterday by Mr Derrik Fullick, general secretary designate of Aslef, which next Wednesday is expected to announce the result of a ballot in favour of an overtime ban on British Rail.

Mr Fullick last night appeared to distance himself from Mr Knapp's call for a united 24-hour strike, but an indefinite overtime ban by drivers will cause continuous delays to the rail system.

Government stands firm on auction of television licences

By Raymond Snoddy

THE GOVERNMENT has rejected the united claim of Britain's 16 ITV companies that auctions of broadcasting licences will reduce the range of quality and choice on British television.

Mr Timothy Renton, the Home Office Minister responsible for broadcasting, argues in a letter in today's Financial Times that "the Government is absolutely committed to the preservation of the range and quality of programme services."

The Minister was responding to a policy statement made for all the ITV companies by Mr Richard Dunn, chairman of the ITV Association and managing director of Thames Television, who said all the companies were "implacably and unanimously opposed" to government auction plans.

In a letter to the Financial Times last week, Mr Dunn also promised to fight government plans through the House of Commons and the House of Lords. He said he would try to make what he saw as the threat to quality television an election issue.

Mr Renton says Mr Dunn has got it wrong by assuming that the process of auctioning franchises must be in conflict with the principle of good quality television.

"There is no question of a *laissez-faire* arrangement," Mr Renton says.

It would be no mean task, the Minister argues, for bidders for Channel 3, the renamed ITV channel, and the new Channel 5 to pass the quality threshold, including requirements for high quality news and current affairs and a diverse service which would have a reasonable proportion of programmes of high quality.

"No bidder unable to satisfy the quality threshold will even get to the stage of having his bid considered," the Home Office Minister insists.

The Independent Television Commission would also have real sanctions if licence conditions were not met, including in the last instance removal of the licence and forfeiture of a substantial performance bond.

"Mr Dunn is incorrect in saying that the purpose of the new arrangements is to maximise the revenue for the Treasury," Mr Renton says.

The purpose of the proposals was to maintain the desired range and quality of programmes and provide a proper return to the taxpayer, he said.

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Conservative MEPs move towards centre

By David Buchan in Brussels

THE REDUCED band of British Conservative Members of the European Parliament (MEPs) have decided to try to join the Christian Democrat group in the new Strasbourg assembly, representing a shift towards the political centre.

The move, decided on Tuesday at a meeting of the 32 Tory MEPs, partly reflects the widespread feeling that Prime Minister Margaret Thatcher's assertively nationalist stance was largely to blame for the party's loss of 12 seats in the June 15 poll.

It is also recognition that the European Democratic Group (EDG), of which the UK Tories were the backbone, has now been so reduced by defeat and defection, from 66 in the last Parliament to 34, that it could no longer be effective.

The two Danish conservative members of the EDG are understood to favour a move to the Christian Democrats, or the European People's Party (EPP) as they are known at Strasbourg. The other main constituent of the erstwhile EDG were Spanish Partido Popular MEPs, 15 of whom have already defected to the EPP, boosting the ranks of the latter to 123.

The Tory MEPs have appointed Mr Christopher Prout, their current leader, to negotiate with the Christian Democrats, who are expected to pronounce on the Tory request when the Parliament convenes in late July. Some Christian Democrats in the Benelux countries and Italy may regard the British Tories as too right-wing and too anti-union for their taste.

But Mr Peter Price, a leading Tory MEP, said yesterday that there was a clear need for "more coherence on the centre-right of the Parliament", and a reduction in the number of political groupings.

Meanwhile, the British Labour MEPs – who took the 12 previously Tory seats – have made their increased presence felt with the offer to Mr Julian Priestley, currently a committee director on the Parliament staff, of the job of secretary general of the 181-strong Socialist group.

Warning on protection of investors

By David Barchard

THE Government received two powerful warnings yesterday that proposed amendments to the Companies Bill could threaten investor protection.

FIMBRA, the Financial Intermediaries, Managers, and Brokers Regulatory Organisation – the largest City self-regulatory body – and the Consumers Association said the changes would loosen the rules for investment advisers introduced a year ago under the Financial Services Act.

FIMBRA fears the amendments could open the way for a steady decline in standards of safeguards for investors.

A new clause due to be inserted into the Financial Services Act would allow Self Regulating Organisations to modify or waive rules they regarded as unfairly stringent.

The Consumers Association said bodies which are dominated by industry representatives should not be allowed to make changes which could jeopardise investor protection. It warned of the danger that investor protection measures might be required to pass a cost–benefit test.

Virgin Vision close to $85m deal with US film company

MR RICHARD Branson's Virgin Group is close to a deal that would see control of his film and video distribution company, Virgin Vision, pass to the Management Company Entertainment Group of Los Angeles, writes Raymond Snoddy.

The deal is believed to be worth around $85m although payment will be in a mixture of cash and shares.

MCEG, a Nasdaq quoted company is involved in film and video production and in the management of "entertainment talent."

The US company plans to produce a number of feature films this year.

Under the proposed deal, Virgin will have a significant minority stake in the merged company and will have a director on the MCEG board.

The deal will give MCEG access to Virgin's distribution operations in the UK, Europe, Australia and parts of Asia. Virgin also has a video distribution company in the US.

London's role as European air gateway 'threatened'

LONDON will be replaced by Paris, Amsterdam or Frankfurt as the main airline gateway to Europe, unless UK aviation is supported by infrastructrure to compete with continental airports, Lord King, the chairman of British Airways said yesterday, writes Lynton McLain.

"The sad truth is that we are in danger of allowing ourselves to be overtaken," he told a meeting of the London Chamber of Commerce.

The French have a five year plan to establish Paris as the leading entry point for long haul air traffic in continental Europe. This involves a $900m investment from 1989 to 1993 and includes a high-speed train station at Charles de Gaulle airport.

"In the French plan, London is a satellite of Paris, not a hub," said Lord King

West Germany is investing almost $8bn at Frankfurt airport, with Lufthansa's declared objective to develop Frankfurt as the number one hub of Europe.

Management buy-outs 'to rise in number, size'

By Nikki Tait

THE "management buy-out" business in the UK is likely to adopt increasing similarities to its counterpart in the US. Such deals are also likely to increase in both number and size.

These are among the conclusions drawn by Mr Steve Thompson at the University of Mancester and Mr Mike Wright and Mr Ken Robbie at the Univiersity of Nottingham, in an article on the UK experience of management buy-outs, published in the Continental Bank Journal of Applied Corporate Finance.

They argue that the average size of buy-outs is rising sharply, and point out that there are a growing number of "buy-ins" – deals where the leading managers are brought in from outside, a trend more prevalent in American leveraged buy-outs.

They also suggest that the contraction of the government bond market, on the back of persistent budget surpluses, could "stimulate a renaissance of the corporate debt market."

If so, they say, tradable debt could figure more prominently in financing future buy-outs.

The writers argue that UK mbos have generally led to management structure reorgansiation, moves into new product areas and improved cash and credit control.

A young man's flights of fancy win Fleet Street wings

Michael Donne, aerospace correspondent, retires after 44 years at the FT. He recalls a life-long passion

I HAVE always thought the Surrey countryside beautiful, but never more so than when I first viewed it from a height of several hundred feet early on an autumn morning in 1950, with the sunshine highlighting the slowly-clearing mist below.

Even so, within my flying suit I was still very cold in the open cockpit of the two-seat, side-by-side training sailplane. But that was of small consequence, for I was imbued with that strange excitement familiar to all novice aviators in the days of open-cockpit trainers, before the emergence of the closed-cabin luxury of today's flying schools.

Life was all going my way at the time. I was young, just turned 22, not long out of the Army (where I had been in the Anti-Aircraft Command), with a promising job on the FT and now, at last, I was learning to fly. I was poor, for a lowly reporter-cum-tea boy's pay in those days was not generous – but I was not worried so long as I could pay my way and continue to fly.

Subsequently, flying for most of the past 40 years has dominated my life and work, involving me in flying some 3m miles in several hundred different aircraft (as a passenger, I must add!), but well before that it had been my driving ambition. During my London childhood before the Second World War, it seemed an impossibly remote objective, for my family was very poor. I compensated by devouring the adventures of Biggles from the local public library with rabid enthusiasm, and dreamed of zooming around in Sopwith Camels and other assorted biplanes.

When I was old enough to ride a bicycle and be allowed out by myself, I gravitated at weekends to Heston (close to where Heathrow was built years later), where I stared, unimpeded by authority, through gaps in the hedges at those God-like creatures landing and taking-off with incredible smoothness and regularity in their – to me – undeniably magnificent flying machines.

During the war, while too young for active service, my school in Oxford started an Army Cadet Force unit, which I joined but soon found boring. I transferred to the Air Training Corps, not without some school hostility, and to my enduring delight found flying at last opening up before me.

Apart from becoming enmeshed in the heady intricacies of navigation, meteorology, Morse Code and other aeronautical theory (I became expert at aircraft recognition), I discovered that I could put on my blue uniform at weekends and cycle out to Kidlington aerodrome, then a war-time basic training field for bomber crews, and sit in the queue in the pilots' readiness hut, waiting for a trainee crew to say "Come on lad, you can come with us!" It was called "Pre-Service Training" or "Flying Familiarisation", but in reality it amounted to free joy-rides, and was wonderful!

I flew on innumerable weekends in all weathers with trainee pilots and their instructors in Ansons (twin-engined training aircraft), over the Oxfordshire countryside. To this day I can describe Blenheim Palace from the air better than I ever could from the ground.

Michael Donne (centre) with Lord King, Chairman of British Airways (left) and Prof Roland Smith of British Aerospace

My home was shattered by Flying Bombs in the late summer of 1944, and I had to quit school and find my first paid job in a hurry in the Hammersmith Public Library. The pay was appalling, however, and I found another job in Bishopsgate in the London with The Financial News (FN) early in 1945. By the time I was drafted for military service in 1946, the FN and FT had merged, and I was with the latter in Coleman Street, working in the Prices Room.

I wanted to join the Royal Air Force, but was rejected because it was already shedding thousands of surplus personnel. Instead, I found myself square-bashing with the Royal Fusiliers at Warley Barracks, Brentford, in which there was no future, and so I applied to join the Gunners. I was posted to a Royal Artillery Anti-Aircraft Training Regiment in Oswestry, Shropshire, but after some hair-raising adventures with the guns in various parts of the country, legitimate and otherwise, found myself teaching reluctant girls the joys of anti-aircraft gunnery.

We all thought it a useless pastime, and found much more interesting and exciting things to do, both on and off the gun-site. But all good things come to an end, and the Regiment was disbanded upon my demobilisation in the spring of 1948!

Initially, I spent some time trying to complete my education part-time at the University of London, but found the college boat club more enticing. But the lure of aviation remained and eventually I enrolled for a gliding course at Lulsgate Bottom, now the site of Bristol Airport but then a disused bomber airfield.

It was one of the most rapturous holidays I have ever spent. The weather was glorious. We were on the airfield early every day, keen to squeeze in as much training as we could. We were using "auto-tow", whereby one sat in a single-seat training glider, called a Tutor, at the end of a long cable attached to a battered motor car.

The car started down the crumbling runway, and as it gathered speed one was hauled into the air at the other end of the cable. At the appropriate moment, learned by trial and error, one pulled a knob in the open cockpit, and hopefully the cable was released from the glider. The plane was left up there, some hundred feet or so above the ground.

It was delirious stuff, and there was plenty of it. As we improved, the cables got longer, we were hauled higher, gaining more time in the air and learning the hard way the rudiments of flying.

Occasionally, the Chief Flying Instructor stopped swearing at us, became human, and took us up one at a time for a higher, longer flight over the Bristol Channel. The motorless flights made me conscious of the astonishing buffeting and noise while flying into wind; but the down-wind leg of a circuit was all peace and calm, and I could relax and enjoy what I have always regarded as pure flying.

I got my "A" licence at Bristol, but because I lived and worked in London, I joined the Surrey Gliding Club in Redhill, a grass airfield then being restored to civilian use. We shared it with the University of London Air Squadron, assorted struggling commercial aviation organisations, and the Experimental Group of the Ultra-Light Aircraft Association, a group of youngsters trying to fly on the cheap. On Saturdays in particular it was a very crowded airfield indeed.

I could not afford a car, and went from the FT office in Coleman Street to Redhill by train on Friday evenings, walking the rest of the way to the aerodrome to save money, clutching the meagre rations my mother had given me – for even at that time Britain was still in the grip of austerity, and rationing was much in force. I came back to the office from the airfield on Monday mornings.

From then on, flying sailplanes became ever more exhilarating. The "auto-tows" of Bristol gave way at Redhill to an old barrage-balloon winch and steel cable that gave the planes several hundred feet of height, enough for a carefully-controlled circuit of the airfield, or about four to five minutes' flying time.

One either did it the easy way, paying half-a-crown for a simple circuit of the airfield, or the hard and expensive way. That involved finding a thermal (a rising current of warm air upon which the sailplane could be lifted higher), so as to be able to fly away to land somewhere else – usually in some irate farmer's field. That also involved paying for the cost of being retrieved by truck and trailer in which the dismantled sailplane was shipped back to base. Surprisingly, we had few accidents, because everyone was very careful, although I must confess that I sometimes nearly gave my weary instructor heart failure!

But gliding became almost impossible as the winter set in, and then I turned to powered flying, with the Ultra Light Aircraft Association, based in a decaying, war-time hangar just up the slope from the gliding club. We were a small, tightly-knit group with our own little aircraft, a delightful single-engined, open-cockpit de Havilland Moth Minor, G-AFOZ, which I believe the group had bought for £50 (in those days, that was quite a sum). We lovingly looked after it, doing all the maintenance and repairs and making the parts for it when we could not afford to buy them. We even re-roofed the hangar with bitumenised felt at our own expense.

That particular Moth Minor was the first powered aeroplane I ever piloted (with the instructor in the back seat), and so it stands out in my memory.

With its open cockpit it gave me an aeronautical euphoria that I have never quite been able to recapture.

We paid for our petrol, oil and maintenance but were taught for free by the marvellous Jean Bird, a brilliant aviatrix with a tough, rough tongue who had served nobly in the Women's Air Transport Auxiliary during the war, ferrying bombers and fighters from the manufacturers to the squadrons. She earned her living by odd flying jobs as and when they could be found.

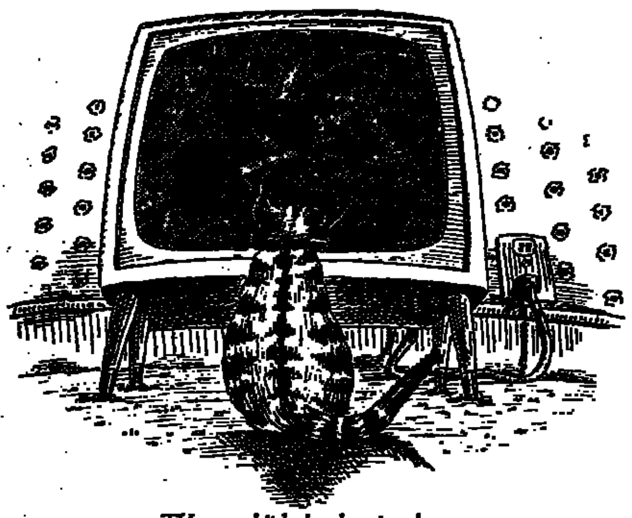
Our set-up was rough and ready – we slept at the other end of the hangar from the aircraft and cooked our meagre meals over a battered stove. In fine weather it was delightful, but in the depths of winter we were often frozen. But we were fit and healthy, and it was enormous fun! We even had a black Labrador puppy called Jet, who loved flying, had his own log book and was occasionally taken up, clutched by his owner. Snoopy had nothing on him!

That was how I came to be the Aerospace Correspondent of the FT. One day early in 1953, the editor, Gordon (now Sir Gordon) Newton, came into the News Room, stopped by my desk and said: "I'm told you're still interested in this flying?" I confessed that I was. "Well," he said, "I want someone to look after aviation for the paper. You're it, on six months probation!" And I have been "it" ever since and enjoyed every moment.

CLEARING THE AIR ABOUT HIGH-DEFINITION TELEVISION No. 2

"IS AMERICA'S TELEVISION INDUSTRY IN TROUBLE? ARE WE ON FOOT OR ON HORSEBACK IN THE RACE FOR HDTV?"

With all the talk about HDTV—home television with wide-screen film-like quality—many people would have you believe that the U.S. TV industry is gasping for breath. Even that America is "fighting for its high-tech life."



TV so good it looks almost real.

But, as Mark Twain said when he read *his* premature obituary, "the rumors of my death have been greatly exaggerated." Granted, America may not be the world's leading producer of TV sets, but we're in the game. What's more, consumer electronics are only part of the picture. In the professional segment of the TV industry—program production, broadcasting, and professional equipment manufacture—the U.S. is the major player.

The U.S. fills more than half the world's need for professional TV equipment.

Program production and post-production involve thousands of American companies that make TV shows and commercials. And because of the immense popularity of American TV overseas, the U.S. is the world's leading exporter of TV programs.

In the broadcasting area, the combined revenues of the more than 1400 American-owned television stations and nearly 10,000 cable systems are almost $40 billion—more than six times what Americans spent buying television sets last year.

Professional equipment manufacturers, who make the equipment for producing and recording TV programs, represent a worldwide high-technology market of more than $3 billion a year. The United States dominates in this area, supplying more than 50 percent of the worldwide market.

For instance, Ampex Corporation alone had overseas sales last year of more than $350 million to some 115 countries. That makes us one of America's biggest exporters.

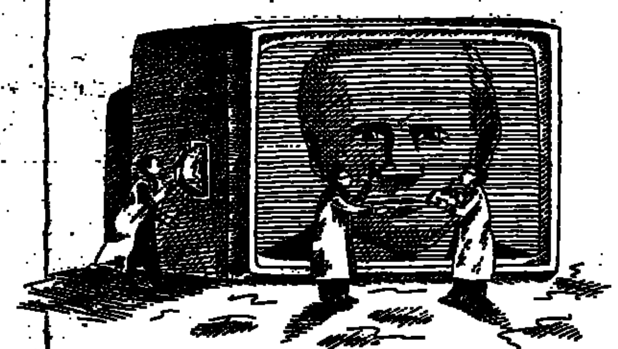
As impressive as these figures are, the professional TV equipment industry is significant for a much more important reason. It is here that advanced technology is developed first—not in consumer electronics. And it is from here that HDTV technology will be spun off to other industries.

Before we can get HDTV in our living rooms, we first have to produce HDTV programs. And then we have to have some means of delivering HDTV to the viewer. The home receiver is only the final link in the chain.

Setting standards is a monumental task.

It may come as a surprise that many professional TV equipment manufacturers already have the know-how to make HDTV products. And we will begin manufacturing and exporting just as soon as production and delivery standards are agreed upon.

Delivery standards—technical parameters set by the government for the transmission of HDTV to the home—are being deliberated right now. Once they are agreed upon, the industry will then be able to define the production standards for making programs.



How good a picture do we want? What are we willing to pay for it?

Equipment manufacturers, broadcasters, and program producers will not be able to risk the huge investments required for getting into HDTV until they know what standards they have to meet. And consumers will not spend money on receivers that may become obsolete even before they plug them in.

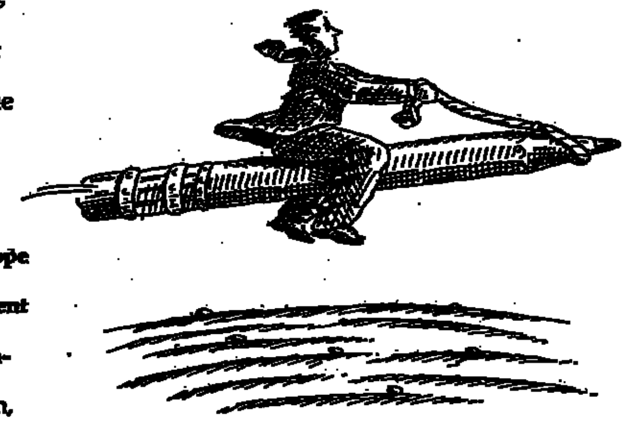
Standards have been effectively set in Europe and Japan, where the broadcasting environment is quite different—and in some ways less complicated—than it is in the U.S. For that reason, it may appear that America is behind in the race for HDTV. Not necessarily so.

The point is that America *does* have a thriving TV industry. We just have to decide how much improvement in picture quality we want and how much we are willing to pay for it.

The race for HDTV isn't over 'til it's over.

We need to set standards that will be good for the consumer *and* the entire U.S. television industry—not just part of it. But, as we go about making these decisions, we should not be distracted by any clamoring crowds on the sidelines. Or by imaginary dogs nipping at our heels.

The standard-setting process appears cumbersome simply because there is so much at stake—both in technology and in international trade. Decisions need to be made rationally. Deliberately. And with full understanding of the consequences.



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MANAGEMENT: Marketing and Advertising

UK retailers put design on the rack

Alice Rawsthorn reports that the combination of increased costs and decreased consumer spending is worrying consultancies

The 1980s has been the decade when design hit Britain's high streets. Shops and stores, even banks and building societies, have been designed and redesigned into temples of post-modernism. And the retail design business has boomed.

Yet in recent months the tide has turned against retail design. The uncertain outlook for consumer spending, combined with rising rents and rates, has imposed intense pressure on profits in an over-crowded high street.

Retailers have been forced to cut costs. Design has been one of the chief candidates for cut-backs. Since the start of the year the level of expenditure on retail design has dropped dramatically.

In the coming months it will become apparent whether the slowdown in the retail design sector is a short-term response to the present pressure on profits or if it is indicative of a longer term realignment of investment priorities by the major multiple retailers.

A glance at the US, where expenditure on retail design has been depressed for 18 months or so, is scarcely inspiring *(see below)*. The situation in the UK is not nearly as depressed, nor as desperate, as in the US. But there is a dramatic difference between the sluggish sector of today and the booming business of the mid-1980s.

The roots of the retail design boom were partly cultural and partly economic. The conspicuous success of "design conscious" retailers – the Burton Group in the late 1970s and Next in the early 1980s – together with the recognition that consumers were becoming increasingly discerning about design encouraged other companies to reassess the importance of design as a management discipline.

These cultural changes coincided with a wave of corporate activity among the major multiple retailers. Burton bought Debenhams. Habitat acquired Mothercare, and then BhS, to turn itself into Storehouse. Ratners staged a series of jewellery acquisitions. Next took over Combined English Stores.

The retail design industry – dominated by Fitch, Conran Design Group and McColl – enjoyed a bonanza of new business. Other design consultancies, like Michael Peters, strengthened their presence in retailing, having made their names in different disciplines. A new generation of young designers, like David Davies and Rasshied Din, emerged.

"At no other time in history could the description 'a nation of shopkeepers' be better applied to Britain than today, with the shops becoming more and more like museums and the *museums like shops*," writes Frederique Huygen, the design historian. "The cause? In a word, 'design'."*

But the mood of the high street has changed. The pressure on retail profits has forced retailers to cast a more critical eye over budgets. Michael Soden, managing director of CDG, says that retail design expenditure declined after Christmas and has been sluggish ever since.

Rune Gustafson, group marketing director of Fitch, has identified a trend for retailers to reallocate resources. He says they are now more interested in "refining existing concepts" than developing new ideas and that there is greater emphasis on operational efficiency.

The competitive financial climate has contributed to a change in attitude among the major retailers. In the mid-1980s "design consciousness" was seen as a prerequisite for successful retailing. But the struggles of Storehouse and George Davies' departure from Next are now being bandied about – rightly or wrongly – as evidence of the demise of designer retailing. "Cost-conscious" companies such as Kingfisher which tend to prioritise financial disciplines over design, are now in the ascendant.

"When consumer spending was healthy, retailing was dominated by people like George Davies who were prepared to be brave about design," says Rasshied Din, whose company, Din Associates, designed the Department X fashion stores for Next. "The economic climate is now much tougher and retailers are reluctant to take risks."

The longer term concern for the retail design business – which is already riddled with rumours about cost-cutting and job losses – is that this attitudinal change may deter the major multiples from resuming expenditure on design, even if consumer spending recovers.

Meanwhile, the critical question for design consultancies is whether they would be able to withstand a prolonged slowdown in retail spending.

Even in the days when the retail design business was booming, the finances of the consultancies were fragile. The apparently inexorable growth of Fitch, which has risen rapidly since going public in 1982, has dominated popular perceptions of retail designers.

Yet Fitch is something of an exception. Its competitors tend to be cursed by the poor profitability and erratic revenue that characterises the rest of the design industry. Even the larger players can be vulnerable – as McColl demonstrated three years ago when it slipped into the red after losing BhS, its biggest client. McColl has since been bought by WPP, the giant marketing group.

Some consultancies have already taken steps to mitigate the effects of the slump. Fitch has been broadening the base of its business for several years, notably with the acquisition of RichardsonSmith, one of the leading product design companies in the US, last year. Retail design should account for about a third of its turnover this year.

Fitch has also expanded its activities in other countries; as have its competitors. CDG plans to build up the business from its offices in Paris and Hong Kong. One of the legacies of the retail design boom is that the UK consultancies have emerged with a reputation for innovation. Even young companies like Din Associates and David Davies are now working on overseas projects.

But international projects are prone to problems. The logistics of co-ordinating ambitious design schemes from another country can be intimidating. Similarly European and North American retailers are not accustomed to paying such high fees as their counterparts in the UK.

Moreover, it is only the established and more innovative consultancies that are offered overseas work. The other retail design companies are left to struggle in an increasingly competitive marketplace and to wonder whether the retail design boom has really fizzled out.

**British Design: Image and Identity, by Frederique Huygen. Thames & Hudson, 30-34 Bloomsbury Street, London WC1B 3QP. £14.95.*

Department X, the Oxford Street store opened by the Next fashion chain at a time when a brave approach was being taken to design. Retailers are now reluctant to take risks

Dearth of new business in US

"IT IS A nightmare," says the head of one of the largest US retail design consultancies. "Competition has never been tougher. Some companies are cutting their fees to crazy levels. Others are throwing in free goodies to try to win new business."

For a year and a half the US retail design business has been in the doldrums. The big store groups cut their investment in design after the Wall Street crash in autumn 1987. And the business has never really recovered.

The crash was followed by a bitter bid battle between Campeau, the Canadian group, and R.H. Macy, one of the bastions of US retailing, over Federated Stores.

The bid created chaos in the department store sector. Macy and Federated both froze their expenditure programmes during the bid; and their competitors followed suit.

The US retail design consultancies were confronted by postponed projects and a dearth of new business. "We are in the middle of a battlefield," says Simon Williams, a director of the US interests of Michael Peters, the UK design consultancy.

The most vulnerable companies have been the middle-sized firms which are often over-reliant on one client. Some companies have collapsed. Others have had to cut costs and shed staff in the struggle to stay in business.

Even the largest consultancies have suffered. Walker Group, a New York subsidiary of the WPP marketing empire, has turned to overseas projects to compensate for the shortfall in the US. Walker gleaned about 40 per cent of its income overseas last year, thereby countering the slowdown in the US.

Hambrecht Terrell, which was recently acquired by the Michael Peters Group, was harder hit. In its case the problems of a lacklustre market were compounded by the illness of one of its founders. Hambrecht has suffered a slump in profits. Peters has since brought Charlie Sparks, one of the leading retail designers in Chicago, to New York to reorganise the business.

There are now signs of a slight revival in retail expenditure. Yet the structural changes within the retail sector – the concentration of ownership and emphasis on financial discipline – suggest that there may be a longer-term reduction in expenditure on design. There is already a pronounced trend for the major multiples to increase their use of in-house design resources.

"It has been a tough year," says Ken Walker, president of Walker Group. "The projects are starting to roll again but very, very slowly."

A mistake to ignore the female traveller

Richard Branson's Virgin Atlantic airline takes an unusual approach to business travel in its latest television commercial: it features a stylish female business executive enjoying the delights of the airline's Upper Class service and even taking the opportunity to ogle the male steward.

Radical feminism by the fledgling airline? No, says Virgin. "We wanted to point out that we offered a different – and better in our opinion – level of business class service compared with the other airlines, not that we were targetting women business travellers exclusively. But we do think that they are an important and growing market for us."

Virgin realises that however fast-growing the number of travelling women executives – and estimates suggest that at least one in every five business travellers are women – no airline can afford to focus its marketing efforts simply on wooing the female traveller.

But, according to a new survey of frequent business women travellers, do the airlines really bother to take them seriously?

The survey of 146 members of the Business Women's Travel Club, a "networking" group for women executives, found that about half felt that airline cabin crew gave them less attention. A third felt that crews assumed that because they were women they would not mind sitting next to children.

Trisha Cochrane, the club's secretary, also points out that while airline cabin crew are happy to use "sir", they either refuse to address women as "madam" or else make it sound patronising. "We are not asking for special treatment – simply recognition," she says.

Yet it is in hotels offering a business-class service where women executives are still most concerned about the way they are treated, according to the survey. The major international hotel chains have, as a result, reacted to the increase in women travellers in two distinct ways.

One approach, typified by Crest Hotels (part of the Bass Group), has been to single out women travellers with the provision of special facilities in 'Lady Crest' rooms.

These have more skirt hangers, extra toiletries, a softer decor, and rooms located close to lifts so that guests can avoid potentially unsafe corridors.

The international Marriott chain, on the other hand, has chosen not to segregate guests according to sex.

"We concentrate on providing a higher level of security and standard of rooms and services for all our guests, irrespective of whether they are men or women," says a Marriott spokesman.

But the travel club's survey also suggests that some businesswomen are still very concerned about hotel security. Over half the survey would object to a bedroom on the ground floor, for example, and all respondents agreed that chains and peep-holes on hotel room doors should be standard.

"A somewhat surprising result, however, was that one in three women would prefer a women-only floor, which is contrary to many reports stating that women do not want to be segregated," says Cochran.

"The point is surely that women would not feel the need to be segregated if they knew they could get appropriate service, security and facilities in every hotel room that they stayed in," she adds.

The survey also clearly showed that most women preferred to eat in their room if alone, given their treatment in hotel bars and restaurants. Two thirds of the respondents found that in restaurants it was automatically assumed that a man would choose the wine and be presented with the bill even if the woman had made the reservation.

"All that is needed is a change of attitude and a little more thought and consideration shown by management, staff and other guests so that women can travel freely," says Cochran.

The marketing opportunities to the hotel, airline, car rental company, and restaurant chain that best meets the needs of the travelling woman executive are obvious. But perhaps the real answer is simply to improve the lot of all travelling executives, not just the fast-growing breed of corporate women travellers.

Business Women's Travel Club, 10 Strutton Ground, London, SW1. Tel 01-222 4533.

David Churchill

TECHNOLOGY

Choosing the right genes for the laundry

Clive Cookson explains how genetic engineering can improve on natural enzymes in the wash

Genetic engineering is transforming the production of industrial enzymes in ways that could lead to laundry detergents which remove all common stains by mild washing. In the food industry, cheap raw materials could be converted into delicacies.

"We expect virtually all of our enzymes to be produced by genetic engineering within five years," says Steen Riisgaard, head of the bio-industrial group at Novo-Nordisk, the Danish enzyme manufacturer. Novo has 40 to 50 per cent of the $500m-a-year world market in industrial enzymes, according to L. Hepner and Associates, the London biotechnology consultants.

Novo launched Lipolase, the first mass-market enzyme made by genetic engineering, in Japan last year. Lipolase is a lipase or fat-splitting enzyme, designed to help household detergents remove greasy stains such as lipstick and butter at low temperatures. Since Lion, the Japanese detergent manufacturer, incorporated Lipolase in its Hi Top brand, this has won almost 20 per cent of the domestic market.

Detergents have formed the largest sector of the enzyme market since the 1960s. Before Lipolase, they contained three types of enzyme: proteases, which remove protein-containing stains such as egg and blood; amylases, which attack residues of starchy foods such as mashed potato and gravy; and cellulases, which improve the appearance of cotton fabrics by eliminating the tiny microfibrils that become detached from the main fibres.

These had been made by selecting strains of natural micro-organisms that produce large quantities of an appropriate enzyme, and growing them in huge industrial fermentation tanks. Lipolase is different. Novo scientists found a lipase with the characteristics required to work well in a washing machine – resistance to alkaline conditions, high temperatures and other detergent ingredients – in a fungus that is not suitable for large-scale fermentation.

They cloned the gene coding for the enzyme and used "recombinant DNA" technology to splice the gene into a different fungus, Aspergillus oryzae, which grows well in industrial fermenters. Within two weeks of starting the fermentation, Novo's Japanese factory in Hokkaido was turning out large quantities of Lipolase.

There are two reasons why Novo launched Lipolase in Japan. One is that, as Riisgaard puts it, "the Japanese market for consumer products such as detergents is much the fastest moving and most innovative in the world." Lion was desperate for a new ploy to attack Kao, its arch rival, which had taken almost a third of the Japanese detergent market with a new concentrated liquid brand.

Regulatory differences between Denmark and Japan provide the second reason. "The Japanese Government gave us approval in four weeks to produce Lipolase," says Knud Aunstrup, Novo vice president for industrial biotechnology. "Exactly the same process took eight months in Denmark."

Aunstrup says that the Danish law on gene technology, passed in 1986, is one of the strictest in the world. He and his colleagues insist that there is no conceivable danger to man or the environment in the sort of industrial biotechnology Novo carries out. The genetically engineered micro-organisms used to make enzymes are all weaker than natural strains and they soon perish outside the favourable conditions of an industrial fermenter.

None of the large European or American detergent manufacturers has yet incorporated Lipolase in any product, although they are evaluating it, Riisgaard says. "Lipolase is on the European market in certain small brands, but I cannot say what they are."

Novo is also using its favourite fungus, Aspergillus oryzae, to make a second genetically engineered lipase, called Lipozyme. This can alter the nutritional quality of some foods, in particular by converting (unhealthy) saturated fatty acids to (healthy) unsaturated ones. Although this sort of enzyme could eventually find a large market – for example in margarines – it is still too expensive for widespread use. In the near future, it will only be sold on a small scale to convert speciality fats, such as ingredients for cosmetics.

Enzymes such as Lipolase and Lipozyme, in which a gene has been transferred from one organism to another, represent only the first stage of genetic engineering. The second stage – protein engineering – has more far-reaching implications.

Genetic manipulation has made it possible to produce artificial proteins, including enzymes. As Riisgaard says, "nature didn't develop any of its enzymes to work well in a washing powder. We should be able to improve the characteristics of enzymes to suit man-made conditions."

For example, an enzyme could be made more stable at high temperatures by building in "disulphide bridges", which tie together distant regions of the amino acid chain. Riisgaard expects Novo's first protein-engineered enzymes – designed by computer modelling – to reach the market in two or three years' time.

International Bio-Synthetics, the world's second largest industrial enzyme manufacturer, could have protein engineered enzymes on the market "within one or two years," according to Hans Van Suijdam, corporate strategy director at the Dutch company (which is jointly owned by Shell and Gist-Brocades). "But the timing is not entirely up to us, because we have to work very closely with the regulatory authorities and with our customers. In the detergents area we have to follow the policies of the 'big soapers'."

However Genencor, the Californian biotechnology company, is beginning to sell enzymes improved by protein engineering to US detergent manufacturers. Genencor has concentrated on a protease secreted by 'Bacillus' bacteria, called Subtilisin.

Genencor uses patented techniques such as "cassette mutagenesis" to make a series of small mutations in the Subtilisin gene and then rapidly analyse the corresponding changes in the enzymes. They are trying both to protect the enzyme against harsh conditions in the washing machine and to make it attack stains more aggressively.

"We've looked at about 600 different Subtilisins," says Jonathan MacQuitty, of Genencor.

Some of the improved enzymes have been sold in the UK, where the Government has announced a £9.6m collaborative research programme on protein engineering, involving industry and the research councils under the Link scheme.

However Paul Engel, who manages the Science and Engineering Research Council's protein engineering "club", warns against expecting too much too soon.

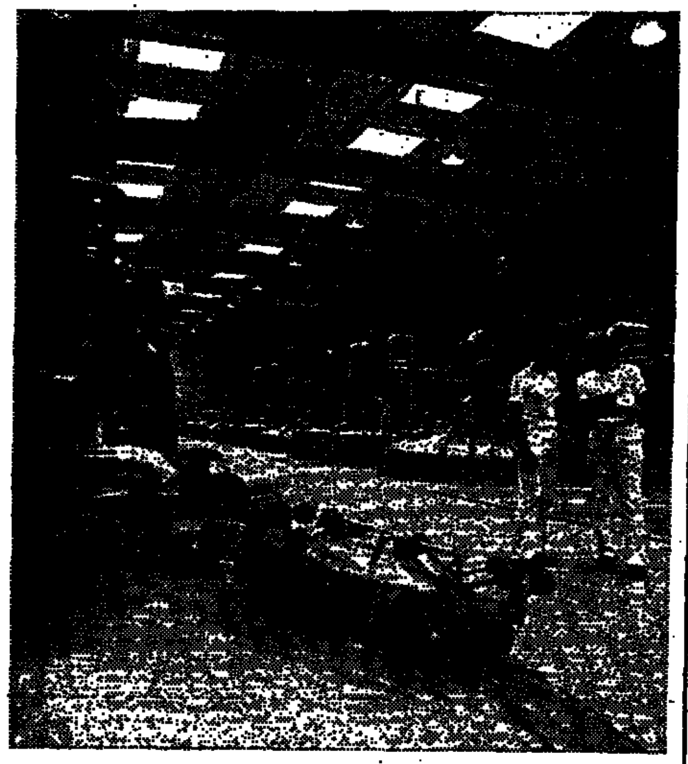
"I think the scientific community almost had to oversell protein engineering – at least in terms of the timescale required – in order to arouse interest and bring in funding," says Engel, a Sheffield University enzymologist.

His colleague Mike Fowler, professor of biotechnology at Sheffield, predicts that protein engineered enzymes will not be in widespread use for at least five years. He suspects that the new enzymes will be less stable than enthusiasts realise.

"There are a hell of a lot of interesting enzymes left in the natural world – and particularly in the plant world – without having to play at protein engineering," Fowler says. He is working with Plant Science Limited, a company set up by the university, to identify plant enzymes for incorporation in detergents. "We're developing entirely new brightening agents which will act on the fabric itself."

The long-term commercial prospects for genetically engineered enzymes in detergents will depend not only on technical developments but also on consumer response. Manufacturers such as Novo are beginning to promote enzyme engineering as "green technology", which will allow cleaning to take place "in a much milder, more efficient and economical way" than is possible today.

However, the appeal to consumers is complicated by the emergence of a new wave of "green" detergents, such as the Belgian Ecover, which have made a virtue out of being enzyme free.



Fermentation tanks producing industrial enzymes at Novo-Nordisk's Kalundborg plant

BP attempts to prophesy the value of research

By David Fishlock

The way that British Petroleum uses cost-benefit analysis to evaluate the performance of its research and development operation has attracted attention from the heads of R&D at other European companies with big research budgets.

A round-table meeting, convened by the European Industrial Research Management Association (EIRMA) in Brussels, applauded BP's application of historical evaluation to R&D performance and the way it brought the value of R&D to the attention of senior management. "What BP has done is to put R&D on the same basis as capital investment," one technical director concluded.

The group was less happy with BP's more recent attempts to rank future projects by the same method. One critic commented: "You don't use a ranking system to choose a wife."

Cost-benefit analysis was the response of Professor John Cadogan, BP's research director, to his chairman's challenge: what am I getting for the £150m a year I spend on central R&D? The technique was presented to the EIRMA round table from the perspective of BP Chemicals, a customer for corporate R&D.

Geoffrey Alderson, general manager of BP Chemicals' R&D department, said that it spent about £100m a year in its six laboratories in Britain, France and Switzerland, and with Cadogan's corporate R&D. This figure was four or five times higher than it was in 1980, when the company woke up to the importance of having its own technology instead of buying it in. £100m was a sum big enough to get senior management's attention, he said. The spending of it had to be justified.

So his company tried to calculate a benefit-to-cost ratio for its past expenditure on R&D for each year. Benefits were taken to be the "gross contribution generated" – an accounting convention well understood in his industry, he said. But to avoid charges of favouring R&D, all estimates of benefits were made conservatively. For example, the scientists were allowed only up to 60 per cent of any estimated benefit, and for no longer than five years, for a given innovation. If the technology had been licensed to others, they reaped only half the benefit to BP.

Technical services were reckoned to amount to 5 per cent of the R&D effort. But a benefit of only 2.5 per cent was allowed for this. Nothing was allowed for an innovation which the company had failed to exploit.

Alderson stressed that the ratio of benefit to R&D cost had no absolute significance. But he believed it could show whether a company was renewing its technology steadily. "If you are roughly in the same band for any year, you know you are providing renewal."

The ratio could be used to compare the performance of different laboratories, or laboratories in different countries, he said. It could also be used to evaluate the worth of different kinds of R&D.

> **'I think it has focused our minds on the bottom 10 per cent'**

One technical director concluded that the BP approach provided a powerful weapon. The ratio demonstrated clearly that R&D was one of the best investments BP was making.

Another said that the important thing was to have everyone talking about the same thing, and not to worry too much about numerical precision. Alderson agreed that it was the thinking behind the cost-benefit ratio that was all important. It obliged both researchers and business managers to think about the R&D.

But that had led him to experiment with the more ambitious idea of "prospective analysis". Alderson said he believed that "are we doing the right research?" was probably a more important question than "are we doing research the right way?"

Six months ago he proposed that BP Chemicals should try to rank the new projects it might embark upon, not just for prospective benefits but also for prospective R&D costs.

The analysis embraced all six of BP Chemicals' laboratories, averaging 10 projects apiece, with about 10 main objectives for each project: a total of about 600 opportunities. For each one they tried to estimate the total gross contribution that success might bring to the company over 10 years, and the pay-back period.

Critical assumptions behind this analysis included how the probability of success was determined, Alderson said. He had discussed the risk analysis with consultants, including Arthur D. Little and SRI, and planned to ask such an organisation to train his project managers in the technique.

His first project ranking, with a risk-reward ratio for each one, had just been submitted to a BP business management review. But already, he claimed, researchers had reaped the benefit of being forced to talk to the business managers in order to put figures to their would-be projects. "I think it has focused their minds and our minds on the bottom 10 per cent."

This analysis still stops short of evaluating the long-range or exploratory kind of research, where benefits are less easily quantified. Alderson, however, admitted he was keen to try it, by evaluating such uncertainties as the strength of patent position for some gleam in the eye.

The round table was not persuaded that accountancy might do better than the intuitive judgment of an experienced research director. One accused Alderson of seeking a formula that would save research directors from making decisions – "and it's horrible to have to make a decision." Nevertheless, he had no faith in a formula for avoiding decisions.

But another recounted how the Japanese resolved the issue by talking not about uncertainties but about certainties in R&D. Hitachi, for instance, had set out to invent the video camera to a formula that, at the outset, defined all the problems and what resources would be needed to resolve the uncertainties within three years. They were huge – but the formula worked.

CINEMA

Overdose of the Indiana Joneses

INDIANA JONES AND THE LAST CRUSADE
Steven Spielberg

DIRTY ROTTEN SCOUNDRELS
Frank Oz

THE RAGGEDY RAWNEY
Bob Hoskins

A HUNGARIAN FAIRY TALE
Gyula Gazdag

MILES FROM HOME
Gary Sinise

The summer is here. Huge, glistening leviathans wearing the label "Made in Hollywood" are moving across the Atlantic even as we speak. Small boats are crushed in their wake; mariners attempt evasive action; fishes panic and appeal to the UN.

You may recognise these monsters by the million-dollar banknotes they geyser whale-like as they travel. *Batman, Ghostbusters II, Star Trek V* – and leading the pack, *Indiana Jones And The Last Crusade*. They cost a fortune; in America they are making a fortune; and if you do not like them, there must be something wrong with you.

I am sorry, doctor, there must be something wrong with me. I personally cannot take much more of them. The cinema of infantile regression is fine in small doses, but one can no longer obtain it in small doses. The Indiana Jones saga has now clocked up seven hours – half the length of Wagner's *Ring* – and the third film is all but indistinguishable from the first two. Harrison Ford, designer-stubbled 1930s archaeologist, once more sallies forth in search of a priceless mythological relic. (This time the Holy Grail.) On the way he meets a large number of uncongenial animals (snakes, rats). He romances a tough but beautiful woman (Alison Doody as a Nazi spy). And he wields his gun, bull-whip and hardboiled sense of humour in the service of truth, archaeology and the American way.

If you tried to carbon-date this script, it would fall apart in your hands, its belligerent decrepitude is wondrous to behold. The director Steven Spielberg and screenwriter Jeffrey Boam (working from a story by series originator George Lucas) believe that the way to an audience's heart is through its solar-plexus. When not being shot, socked, blown up or otherwise harassed, the characters leap chasms, smash through windows or deliver camp dialogue ("Nazis! I hate 'em!") with all the subtlety of a ton of coals.

The only exchange I inwardly cheered was an early one between villain and hero. Hero (holding precious object): "This belongs in a museum." Villain: "So do you."

The pace lets up for little except some mystical uplift late on. When we at last discover the Grail, we find it comes with a lot of pseudo-elevating dialogue and hotel-elevator Wagnerian music: all soaring, anguished strings by composer John Williams. (The single, if ever released, will no doubt be called "Parsifal, Rosemary and Thyme.")

Oh, but goodness, I almost forgot Sean Connery. Mr C plays Indiana's father, a crusty old cove and fellow Professor of Antiquities. He is rescued by his son from an Austro-German castle where he is for some reason held prisoner and he accompanies "Junior" on his mission. Connery's twinkle-eyed, crinkly-smiled authority lends the film what little nobility it has. For his reward, he is shot late on. Will it prove fatal? Or will the Grail's healing power save him for a sequel? Poor man, let us hope not.

Harrison Ford and Sean Connery in "Indiana Jones and the Last Crusade"

★

The moment I most enjoyed in the comedy *Dirty Rotten Scoundrels* was Steve Martin's memory of his grandma's advice to him when young. "It is better to be truthful and good" he quotes her ringingly as saying "than to not." Only Dan Quayle, shoring up his Vice-Presidential debate last year with Midwest family wisdoms, ever surpassed this for banality-with brass fittings.

Martin romps home with the other best scene in this tale of two confidence tricksters in the South of France: a near-apoplectic verbal fit while trying to remember a wealthy pal's name in prison. Said pal is played by Michael Caine, debonairly negotiating accents (upper-class Brit, cod German) as he shows the apprentice Martin how to relieve rich ladies of their fortunes.

Stars apart, this re-make of the 1962 Brando-Niven flop *Bedtime Stories* is a fitful thing. (What, they are re-making failures now?) The comic twists could all be written on the back of a postcard, while the front of a postcard would serve for the rest of the movie: gorgeous views of the Côte d'Azur as the camera gazes to seaward to refresh its eyes and/or politely conceal its yawns.

★

"Just 'ow much do you know about 'orses?" asks gypsy patriarch Bob Hoskins of young Dexter Fletcher in *The Raggedy Rawney*. Young Dexter is in drag and is struggling, like us, with the demon oddities of the film's plot (co-written and directed by Mr Hoskins.) But like us too, he probably knows enough about "orses" to recognize a candidate for the knacker's yard.

The Raggedy Rawney is a shamblesharks fable, filmed in Yugoslavia, about gypsies during World War I. Scrawnily photographed by Frank Tidy – the same who shot Ridley Scott's dazzling *The Duellists* – it clodhops through a tale of magic, pacifism, pregnancy and transvestism. Can the persecuted, magic-powered young army-deserter hero (Fletcher) escape the pincer-movement machismo of Mr Hoskins (wanting revenge for his pregnant-by-Dexter daughter) and the army (wanting its deserter back and if possible shot)?

Dressing up as a girl, young Dexter probably represents peace and love in a too brutal world. The unnamed, war-torn country probably represents the said world. And as a writing-directing debut, this fey, portentous movie undoubtedly represents Bob Hoskins's urgent summons to return to full-time acting.

Gyula Gazdag's *A Hungarian Fairy Tale* is the week's second and better didactic fantasy set in Eastern Europe. Gazdag takes a stick to his country's bureaucracy. According to Mr G, Hungary is the only nation in the world which legitimises one-parent children by requiring a fictitious father to be recorded on the birth certificate.

So off we go. Our boy hero (Arpad Vermes) who has lost his mother, teamed by a falling brick one day in a sunny street, sets out to find his non-existent father at the non-existent address. Much *Magic Flute* music accompanies him. For he is, is he not, a questing Tamino torn by conflicting moral bulletins on the grown-up world? That world is also filled with vaguely Dickensian supporting characters: the Newman Noggs-like clerk who registered his birth, the divorced couple who sit at opposite ends of a cafe while their tug-of-war child serves out the last minutes of her weekend with Dad. (Dad, a tactician to the last, uses these minutes quietly to slag off Mum.)

Scene from Gazdag's "A Hungarian Fairy Tale"

Much humour here, but also some ponderousness. Shot in rough-hewn black-and-white, the film takes a long time to knit together the converging destinies of the boy, his ideal father (the clerk) and ideal mother (the divorced cafe sitter). And their final union is stop a giant metal bird which, courtesy of some creaking trick photography, takes off from its pedestal and flies over the city. This scene's merit marks are the same as those for the rest of the film: A for idea and effort, C plus for execution.

★

Miles From Home is a *Bonnie And Clyde* for the era of farm foreclosures. The provenance is intriguing: script by Chris Gerolmo (of *Mississippi Burning*), first-time direction by Steppenwolf Theatre's Gary Sinise, now treading the London boards in the Chicago company's *Grapes Of Wrath*.

But intriguingness is all. *Déjà vu* soon threatens like summer rain, as brothers Richard Gere and Kevin Anderson bound across Iowa and neighbour states after torching their ailing farm (once visited by Kruschev as "farm of the year") to prevent appropriation. On the way they vandalise banks, fanfare their message of compassionate economics and become folk and media heroes.

"You boys've done what most people would like to do!" squawks an old biddy in a trailer camp. "Everybody's poor, at least your famous" coos an exotic dancer in a bar-cabaret. Yes, yes. But we have been through all this before, in countless mythologisation-of-the-outlaw movies; and the Reagan-Bush-era "unfair to farmers" dimension adds little. Nor does the reproduction Aaron Copeland music, shoved in for rural inspirationalism by composer Robert Folk. Ultimately, *Miles From Home* is no more than a crime-and-chase thriller with ideas above its station.

Nigel Andrews

The Voysey Inheritance

COTTESLOE THEATRE

It is oddly interesting that the plays of Harley Granville Barker, spiritual architect of the National Theatre and practical inspiration of the Court Theatre, should strike us now with more ferocious application than do those of his friend and colleague Shaw. Almost without exception, they are less witty but more biting. When the National did *The Madras House* in the Peter Hall era, one suddenly saw the direct precedent for the Hare and Brenton collaborations.

The Voysey Inheritance is extraordinarily apposite. Here is a classic Edwardian family disrupted by the news that its material wealth is the fruit of ingrained, traditional habits of fraud and corruption. Old Voysey is a solicitor whose inheritance is based on his own father's corrupt disposition of clients' trusts and bonds. A failed investment in the Northern Electric has pushed him further into murky waters.

The question is, will his own son, the play's central character, Edward, put wrongs to right, re-pay debts, endure public disgrace, even go to prison. For three acts we are enlisted as witnesses to a domestic drama of high tension. Priggish Edward succumbs, however, to the love of an anaemic cousin.

Richard Eyre's production, and Jeremy Northam's performance as Edward, retain a faithful cloudiness over the last two acts, leaving us to deduce that the dynasty will perpetuate itself under the governance of accepted loose standards of commercial life.

Jeremy Northam and David Burke

Insider trading, defrauded clients, new interpretations of honesty, family feuds. Not exactly old hat, is it, though Barker's low-key, not to say unvarnished style of dialogue, leaves a lot of colouring to be done.

One of Voysey's four sons, a kept poet in a velvet jacket, expresses dismay after walking from Hampstead to the City: "You'd think an Empire could keep its streets clean." There are also strong hints of political cracks and hardening ideologies after the Boer War.

Eyre's production allows for some florid indulgences, notably Robert Swann's absurdly militaristic brother and Barbara Leigh-Hunt's magisterially deaf materfamilias incongruously glued to the pages of Notes and Queries. But the overall style in the Cottesloe is stiff and formal, rather as if this were a BBC TV Play of the Month (which I seem to recall it once was).

The decision to split the audience into a traverse arrangement, decorated with heavily realistic standing pieces designed by William Dudley, also has an embalming effect. Inwardly centred round a great diagonal table on the country estate, one's participation in conversation and facial reaction is random. The "in-the-round" approach is surely wrong for this sort of formal drama and formal Anglo-Saxon playing.

The best encounters are those conducted in profile over the heavy desk in Lincoln's Inn. Here David Burke's barking Voysey defends the scandals his son has tearfully uncovered ("We do what we can in this world") while denouncing Edward's priggish, untried moral valour. How that stance comes under threat is only flatly intimated by Jeremy Northam. The subsequent interview with the family friend and cheated confidant, George Booth (Graham Crowden), is another highlight.

Curiously, the scene Max Beerbohm hailed as the high point of English ironic comedy, the thunderous revelations to the family after Voysey's funeral, seems anything but.

The evening is carried, just about, on distorted notions of principled heroism, financial skulduggery, false heroism and the carefully inflected contributions of Stella Gonet as the salvationist, conspiratorial fiancee, and of Michael Bryant as a family retainer suddenly cut off at the knees by a discontinuation of his Yuletide hush money.

Michael Coveney

Maximova at the Dominion

The star ballerina, the true sacred monster able to light up the theatrical night for an adoring public, is now an endangered species. In Russia they can still produce such marvels; in the West it is the generation of Haydee, Seymour, Sibley who seem the last members of a fabled breed. They need, of course, vehicles in which to drive to glory, and it is in the dramatic works of Cranko and MacMillan that we have best seen the irresistible and tremendous progress of the diva. So English National Ballet has pulled off something of a coup this week by presenting both Ekaterina Maximova and Lynn Seymour in Cranko's *Onegin*, offering us a chance to compare the styles of two supreme theatrical artists.

Ekaterina Maximova, on Monday night, gave a performance notable both for its perceptions about Tatiana's character and for its controlled intensity. As with Makarova's reading, we know that this an interpretation rooted firmly in Pushkin's verse: the words ring through Maximova's dancing, and the inner life of the role, the romantic world of the girl Tatiana's feelings, seems everywhere to colour the dance. It is also a portrait of unaffected simplicity and directness of means. Maximova, in superlative form, draws the choreography's outlines with a fine and unerring touch: those impeccable legs and feet have never looked lovelier, and the way in which movement opens out from the trunk gives a beautiful freedom to every action. To see her make the least gesture or dart into the dance with vivid speed is to know greatness.

Nothing is over-stated or forced in this characterisation. Tatiana gives herself wholly and without question at the end of the first scene as she gazes after Onegin; the duel scene brings the sudden access of maturity as Onegin leaves, Maximova superb as she sees him at last for what he truly is; the final interview – where Cranko's dance images exactly fix Tatiana's riven emotions – thrilling in its rejection of an impossible love.

In everything Maximova spoke the truth about Tatiana and about classical dancing.

with purity and grace. It was a tremendous portrayal. She had very fine support from Martin James's tormented Onegin, from the unfailing lyric charm of Trinidad Sevillano's Olga, and from Patrick Armand's impetuously proud Lensky. A memorable evening.

★

On Tuesday night Lynn Seymour provided a no less memorable and beautiful reading of Cranko's heroine. As with her astounding debut in the role last season, the nuances of her playing, the utter sensitivity of her portrayal, its wave-like pulse of movement and unerring rightness of feeling, take us to the very heart of the girl Tatiana, and then lead us magnificently to the soul of the woman who stands alone at curtain fall. It is great theatrical art, and flawless. And from Alexander Sombart, flawless partnering, both in technique and in drama.

Clement Crisp

Draghi and Purcell at St James's

The annual festival at the beautiful church off Piccadilly is now in its fifth season, and bears the title "Lufthansa Festival of Baroque Music" – enlightened sponsorship for an enlightened and valuable enterprise. Tuesday night's concert, conducted by Ivor Bolton, St James's music director, combined G.B.Draghi and Purcell, and suited the circumstances of place and occasion very well.

The former was an Italian composer and instrumentalist (c.1640-1706) active in England for most of his life, prolific, and, on the evidence of the *Song for St Cecilia's Day* performed here, competent and unmemorable in equal parts. This setting of Dryden's "From harmony, from heavenly harmony" judiciously assorts solo and group voices into suitable song-paragraphs, and the singing and playing of the St James's Baroque Players and Singers took its measure; but it required only a few bars of *Dido and Aeneas* after the interval to expunge every trace of Draghi's fluently bland inspiration from the memory.

Mr Bolton kept the opera intimate, using single strings, lute and harpsichord, and a chorus of 12 containing most of the lesser soloists – forces probably not unlike those of the work's first performance at a Chelsea girls' school. It was finely controlled, balanced, paced, and weighted, fluent and light without ever risking superficiality; and at its centre, as counterbalance to the prevailing "domestic" simplicity of style, there was a Dido of unutterable majesty and grandeur by Della Jones, a reading of such passionate intensity that my hair stands on end at the slightest recall of it.

Miss Jones did not in any way blow the Carthaginian queen out of scale with her fellow performers: she is a supremely well-practised singer of 17th and 18th century music, and creates every one of her interpretative effects out of tone-colour and word-shading, as all the best-schooled "authentic" singers are wont to do.

But, unlike so many of those singers, she takes tremendous risks with the dramatic import of the words and music – those sudden ripe plunges into chest register, sudden biting consonantal attacks (what scalding fury was poured into the phrase "the deceitful crocodile"), sudden moments of ethereal softness, all stoked the fires of the character to a glorious blaze. Miss Jones is singing better than ever; she is one of the priceless jewels of British opera.

Max Loppert

ARTS GUIDE

June 23-29

EXHIBITIONS

London

The Tate Gallery. Cecil Collins and F.E.McWilliam – retrospective shows side by side of two senior British artists; both shows until July 15; McWilliam sponsored by Ulster TV.

The Royal Academy. The 221st Summer Exhibition of the Royal Academy – the usual gigantic and enjoyable free-for-all of painting, sculpture, print and architecture with nearly 1,200 works on show. Yet, as always, it is different this year for the particular treats it offers for the visitor who has the determination to search them out. Until August 20.

Paris

Musée de la publicité. Alfons Mucha in Ivan Lendl's collections. Some 100 original posters by one of the foremost creators of Art Nouveau are shown. Mucha, catching brilliantly the fin de siècle mood, wreathes his red-headed beauties in flowers, swirling volutes and floating draperies. Having become the favourite artist of Sarah Bernhardt, his posters proclaim with equal success the excellence of biscuits Lu, Perfecta, bicycles and bouillon Maggi. Closed Tue. Ends July 17. 18, Rue de Paradis (Metro Chateau-d'Eau) (42461309).

The Louvre. Les donateurs du Louvre. Aptly, the newly refurbished museum inaugurates the 1,200 square metres of space created underground for temporary exhibitions by expressing gratitude for the generosity of donors throughout its existence. 10pm, all days except Tuesdays.

Amsterdam

Boymans-van Beuningen Museum. The finest of the early Italain paintings in Dutch collections have been gathered in a show containing works by Duccio, Guido da Siena, Filippino Lippi, Bellini and Carlo Crivelli. Ends July 9.

Brussels

Palais des Beaux-Arts. The Credit Communal Collection of Belgian Art from 1860 daily ends July 20.

Galerie Triglyphe. Bruxelles Protegé. Photographs of Historical Monuments and sites now under state protection. Closed Monday. Ends July 1 (648 8006).

Frankfurt

'Je Suis le Cahier', the sketchbooks of Picasso. This exhibition of 40 sketchbooks and around 200 paintings, organised by the New York-based Pace Gallery and sponsored by the American Express company, will have its second stop here in Frankfurt on the European tour. These fascinating sketchbooks, owned by Picasso's family have never been shown in public before. All styles and periods in his working life are represented here. These books cover around 70 years of his life; his start in Spain at the turn of the century, the cubism period before the First World War, and followed by the period from 1920 to 1965.

Cologne

Bilderstreit. Rheinhallen der Kölner Messe, Messegelände, Deutz. The two organisers Johannes Gachnang and Siegfried Gohr, present "contradictions and contrasts as the essential source for the debate about contemporary art." This exhibition is in contrast to avant garde: it explains areas of action and attempts to provide an unprejudiced outlook on the current art scene. Approximately 1,000 works by 130 artists concentrate on art since 1960. The show should give a detailed view of different art styles, with "old classics" of modern art next to works by contemporary artists. Among them are Gilbert and George, Kasimir Malewitsch, Blinky Palermos, Carl Andres, Edvard Munch, Markus Luepertz, photographers Bernd and Hilla Becher, Joseph Beuys and Dadaist painter Marcel Duchamp, John Baldessaris and Georg Baselitz. There are also works from William Copley's collection by Duchamp, Man Ray, and Rene Magritte. Ends July 2.

Stuttgart

Staatsgalerie, Konrad-Adenauer-Str. 30-32. Salvador Dali: (1904-1989). Stuttgart presents the biggest Salvador Dali retrospective since his death earlier this year, to honour him on his 85th birthday. 350 works from all periods of his working life and from several collections, museums, galleries, from all parts of the world, except the Teatro-Museo in Figueras, his home, are to be seen. The exhibition, organised by Mrs Karin von Maur, who tries to explain how Dali's works can combine with the post-modern period, concentrates on his works from the 1930s (surrealism). Among them are pictures which have not been shown in public before. Ends July 23.

Vienna

Messepalast. A thoughtful exhibition, called the History of the Modern Mind, deals with the works of Sigmund Freud as well as the plethora of artists who grew up in Vienna at the turn of the century. Ends August 6.

Rome

Villa la Farnesina, Via Della Lungara 230. Drawings from the Venetian and Lombard schools: 16th to 18th centuries. About 100 works from the National Graphics Institute's collection. Particularly interesting is the Venetian section, with nude studies by Tintoretto, works by Domenico Campagnola, a large group of sketches by Palma di Giovane, and two views of Rome by Canaletto. Make a point of seeing Rapahel's frescoes on the ground floor of the villa on the way out. Ends July 16.

Venice

Museo Correr. French impressionists from the Mellon collection at the National Gallery of Art in Washington: more than 40 works, among which are delights such as Courbet's seascapes, Seurat's La grande Jatte, and Renoir's Madame Monet and Son. Ends Sept 4.

Palazzo Grassi. Italian Art: 1900-1945. A much-amplified exhibition covering a briefer period than did the recent show at the Royal Academy in London, organised again by German Celant, with the director of Palazzo Grassi, Pontus Hulten. An attempt is made to put the works into a clear political and social context, emphasising links with contemporary literature, music and cinema. The exhibition ends with two blown-up stills from films by Visconti and Rossellini. Ends Nov.

New York

Whitney Museum. The 65th in the long series of Annuals and Biennales features a large group of lesser-known artists among the 80 represented on three floors of galleries. Ends July 9.

Washington

National Gallery. More than 400 images are part of a massive retrospective of the 150 years of photography, here represented by Alfred Stieglitz, Walker Evans, Laszlo Moholy-Nagy among dozens of others. Ends Aug 13.

Chicago

Art Institute. Master drawings from the Teyler Museum, the oldest in Holland, include nearly 100 works of two centuries by Michelangelo, Raphael and Rembrandt.

Tokyo

Suntory Museum. Wall paintings and screens from castles and temples of the Momoyama Period (16th century). The works are of two main types: sumie landscape paintings and colourful paintings on a goldleaf background. Closed Mondays.

SALEROOM

Paper record for Braque

A charcoal drawing of a head of a woman by Georges Braque became the most expensive Cubist work on paper ever sold at auction at Sotheby's in London yesterday. The early Cubist work of 1912, drawn over white and imitation wood-grain paper, was bought for £2.4m (estimate £700-900,000) by Thomas Ammann Fine Art, a Zurich dealer. It is the second highest price paid for a modern drawing.

At the Impressionist and modern sales in the same rooms yesterday and Tuesday evening, the secondary sales of the season, it was the top lots that sold on target and the lesser lights that topped their estimates. Thus, a lugubrious late Modigliani of a man in a bar changed hands at an anticipated £3.52m, Wildenstein of New York paid £3.19m for Monet's notation of the river at Argenteuil, and a Gaugin still life of exotic fruits, consigned by a Japanese collector, returned to Japan for £2.31m.

The surprises came when a Belgian dealer paid £880,000, twice the estimate, for Magritte's depiction of the artist creating a woman out of thin air with a paint brush, his version of the story of Pygmalion and Galatea. Another Surrealist oil, by Paul Delvaux, also doubled expectations by selling for £836,000.

A clutch of records followed in Part II, including Gustav de Smet's 1920s interior "Le Canapé Bleu" which was snapped up by Belgian trade for £550,000 (estimate £140-160,000).

★

The Usher Gallery in Lincoln has succeeded in raising an impressive £1,922,250 to match the price paid by Alan Bond for Benjamin West's portrait of Sir Joseph Banks, the distinguished Lincolnshire-born botanist who accompanied Captain Cook on his expedition to Australia in 1771, and founder of Kew Gardens. The problem is that Mr Bond has refused to sell. Under existing export laws, a work of art of national importance may be temporarily refused an export license to enable a British collection to match the purchase price, but the vendor is under no obligation to sell. The anomaly in the system effectively encourages Mr Bond to re-apply for an export license with a valuation higher than the price paid at Sotheby's in 1987.

Susan Moore

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Japan's LDP at bay

IT IS USUALLY the beginning of the end for a politician or a political party when he, she, or it becomes a figure of fun. The Liberal Democratic Party in Japan, a conservative and sober institution that has run a country not given to excessive mirth for the best part of 40 years, is now running the risk of being held in public derision.

In one critical sense, it is entirely its own fault. It permitted itself to be so paralysed by the Recruit financial scandal that it elevated to the national leadership a weak compromise politician. Now Mr Sousuke Uno, the new Prime Minister, though financially clean, is being laid low by the sexual company he keeps. Given the amount of time it took the party to find him in its woodwork, the immediate prospect, regardless of whether he goes or stays for a while, is of another vacuum at the political top. The longer term concern, once unthinkable, is that the LDP's long and stable rule, itself a substantial contribution to Japan's prosperity, might be in jeopardy.

Envy aroused

How and why has this come to pass? One theory, worth examination, is that Japan has changed while the LDP has not. It is true that the country *has become less equal* than it was, that the considerable wealth which has come to those with land or stock market investments has induced in the have-nots the long quiescent sense of envy. In this process, the LDP has continued to ply its trade according to the time-honoured use of money and favours.

A variation of this is that Japan is picking up values from elsewhere, as it becomes more aware of the rest of the world. Certainly the country had been, before Recruit, rather tolerant of foibles. Mr Kakuei Tanaka, the former Prime Minister, was brought down because of his excessive use of money, but it was more the excess than the use that undid him. It was widely known that many politicians kept mistresses, but if and when they told their stories, as sometimes they did, the nation rarely listened. The problems of successive Prime Ministers over first money and now sex could point to the adoption of western standards.

Finally, and more concretely, it is undeniable that the party did itself much harm by pushing through *parliament late* last year a singularly unpopular piece of legislation, the introduction of a 3 per cent national sales tax, which profoundly affected its core constituencies in manufacturing and retailing.

Party squabbles

But the reality surely is that the LDP has come to its present sorry pass by allowing itself to appear weak and vulnerable. The Recruit scandal was permitted to unfold before an incredulous public while *the party occupied itself* exclusively with internal squabbling. The Recruit cull of prominent figures may have reflected the changing values of Japan but it was also just as much about the rivalry between two party giants, former Prime Ministers Nakasone and Takeshita, each intent on blaming the other and each in the end undermining the other. Poor Mr Uno, without a power base, was always going to be vulnerable to the first puff of an adverse wind.

This came from recent by-elections, in which the LDP has done badly, and from the fear that it will do even worse in next month's vote for half the Upper House. Even before his private affairs became public knowledge, Mr Uno was already fingered as the scapegoat. Yet, if the LDP would look beyond the end of its own nose, it would surely see that there has been no commensurate rise in support for the motley crew of opposition parties on the centre and left.

The solution, therefore, still lies in the LDP's own hands. It would be best if it opted for a younger leader, regardless of whether or not tainted by Recruit. Failing that, an ancient of real political clout might help get through the general election expected next year. But another nonentity will not do. Parties which are held in contempt either fall apart or lose elections. The Tokyo stock market considered this prospect yesterday and did not like what it saw.

London's role in futures markets

THE CITY has long basked in its historic pre-eminence – at least in its time zone – in the field of commodity and financial futures. It has awoken late to the prospect of other European pretenders eroding its position. Steps are being taken to bolster London's position, but they are too slow and probably misdirected.

Once pariahs of the financial world, sophisticated markets in derivative products are today essential assets of any growing financial marketplace. They have become important counters in the battle for the limelight among Europe's capitals.

Together, London's derivative markets dwarf the rest of Europe's. The trouble is, together they are not. They are scattered between five locations and fiercely jealous of their independence.

Meanwhile, Paris and Amsterdam, eager to loosen the City's grip on European commodities business, are both competing to entice the International Wheat Council and the International Sugar Organisation to relocate from London.

Matif, the Parisian market set up three years ago, already attracts more volume than the longer established Liffe. And tomorrow the West German parliament is expected to vote through legislation allowing a domestic futures exchange to be set up next January.

Quarrels buried

In the US the Chicago Board of Trade and the Chicago Mercantile Exchange have agreed to bury their quarrels at least long enough to consider combining two embryonic electronic trading systems in a potentially unbeatable global network. Japan opens its first solely financial futures exchange tomorrow.

But London's natural advantages – as the world's pre-eminent foreign exchange trading centre as well as home to the Euromarkets – lie unexploited. No one has devised a Eurobond future and the only successful currency derivatives trade in the US.

Until recently, the UK authorities took precious little notice of their derivatives markets, save to react, too slowly, to justified industry complaints about tax and regulatory impediments. The comparison with France, where the Government has stood right behind Matif, has not escaped the City.

Now, with a perceptible sense of urgency, one of the main policy responses has come from Mr Francis Maude, Minister for Corporate Affairs, who has strengthened his calls for London's markets to hold hands across a common floor. It is probably one of the least useful contributions the authorities could make.

Forced out of its cramped quarters at the Royal Exchange, Liffe is searching for new premises. The front runner is the Cannon Street development which could accommodate all six markets. It would be ready by the third quarter of 1990.

Outcry tradition

There lies the rub. Such a physical trading floor will look anachronistic before it is built. While the sentimentality with which futures exchanges have clung to their tradition of open outcry trading against the inevitability of automated trading is truly surprising, the progress made in the last year, notably in Chicago, has confounded observers. London has no room for complacency on that score.

Ironically, the City's most overlooked advantage is indeed one of technology. Already two exchanges share a trade matching system far in advance of anything in the US. Liffe's own automated trading system is months ahead – for a fraction of the cost – of the recent and very similar Chicago Board of Trade product. Neither of the proposed Chicago systems can yet cope with soft commodities, whereas London has been trading a white sugar contract electronically for nearly two years.

Put these together and London's markets could have a single trading and settlements system that would hold its own globally, and would be a powerful tool to link with, rather than ward off, younger European markets. In encouraging such a configuration, the authorities, unencumbered by the exchanges' special interests, have a genuine role to play.

ECONOMIC VIEWPOINT

Don't sell Madrid short

By Samuel Brittan

THE simplest way to define monetary union is an area of permanently fixed exchange rates, with no exchange controls or other barriers to the free movement of capital or circulation of currencies.

If words mean anything at all, this is the minimum to which European summit leaders have committed themselves in Madrid. However great the jostling for position or the argument about "Who won?" or "Who lost?", the process is now likely to acquire a momentum of its own, as has happened at every other stage in the Community's existence.

The commitment to European monetary union is good news so long as it is realised that this does not necessarily involve the Delors vision of a federal central bank and harmonised fiscal and regional policies. The argument for monetary union, in the most fundamental sense defined in my first paragraph, is that so long as exchange rate swings continue, business is not going to be indifferent to the geographical sources of its products or the distribution of its markets. An example is that some international companies follow a policy of serving each European country as far as possible from national sources. Europe will not be a single market – or a series of markets cutting across state frontiers in the sense that the US is – while *currency* uncertainties persist.

Seen this way, monetary union does not necessarily require a common currency and no more needs a United States of Europe than the gold standard or Bretton Woods needed a United States of the Western World.

The present European Monetary System, which is based on the anti-inflationary anchor of the D-Mark, will be the basis of Stage One of the timetable agreed in Madrid, to start on July 1 1990. By then exchange and capital controls should have been removed in the major countries; and in the course of Stage One all members have agreed to join the Exchange Rate Mechanism and hasten convergence of inflation rates and overall performance.

If the Delors Committee is followed, Stage Two will just be a transition to the vital Stage Three when there will be a federal-type central bank and ultimately a single currency. The heads of government did not commit themselves to the Delors specifics, but have agreed to a fully and adequately prepared inter-governmental monetary conference to consider later stages, to meet "once the first stage had begun." That conference would require unanimity in any decision to amend the Rome Treaty. So the Madrid Summit has at least postponed the spectre of a two-speed Europe.

Readers who detect a stronger enthusiasm on my part for EMS – which forms the core of Stage One – than for the Delors vision of Emu are quite correct. The EMS has a strong anti-inflationary anchor in being a D-Mark zone. The system requires a minimum of bureaucracy and institutions; and is difficult to use for purposes like harmonising budgetary and regional policies.

It will be most undesirable to try to transcend the EMS until one can be confident that any new set of institutions will have the same commitment to stable prices as the Bundesbank – which sets the pace in the EMS – and the same relative independence from political pressures.

There is also a positive case to be made. A sufficiently strengthened EMS, in which parity changes have become extremely rare, would provide many of the advantages of monetary union without the *dirigiste* accompaniments of the Delors version.

A common currency could even emerge from the EMS by an evolutionary route. Once it is accepted that parity changes have become a thing of the past, currencies will become increasingly accepted across frontiers as they already are in border areas. Eventually the difference between one European money and another could approximate to the difference between English and Scottish banknotes. The different national names can be changed when public opinion is ready; and a common central banking institution can be created when and if the need appears.

All in all it would have been better if all sides at Madrid had concentrated rather more on the problems of EMS in Stage One than on what President Mitterrand delighted in calling ideological arguments about Stages Two and Three.

In this context the British Government should have been pressed much harder for a more definite commitment to join the Exchange Rate Mechanism at a foreseeable time. In return the communiqué might have been more open-ended about the eventual goal. Its present wording will leave the way open to endless arguments about interpretation.

The Chancellor had already told the Commons Treasury Committee that Britain should join the Exchange Rate Mechanism when the British inflation rate came down and when there was evidence that the mechanism could survive the removal of exchange controls by countries such as France and Italy, due by July 1, 1990. To these Mrs Thatcher added in Madrid three further conditions: completion of the internal market, a free market in services, and a stronger competition policy.

These extra conditions can mean everything or nothing. It is most unlikely that all of the *single market* will be implemented by the end of 1992 and bickering on many aspects can continue into the 21st century. On the other hand, the British Government could, if it chose, decide at any time from mid-1990 onwards that sufficient progress had been made in these areas to establish the bona fides of its partners.

Thus there is no early prospect of an end to wearying arguments for and against British entry both inside and outside the Cabinet, and to disputes over the interpretation of the *all-too-short* UK experiment in shadowing the D-Mark in 1987-1988.

Meanwhile the London Business School has argued the domestic case for EMS entry in its June Economic Outlook. It starts from the lack of credibility of British counter-inflationary policy – which will not be restored by one favourable blip in the trade figures, even though that has enabled the Bank of England to launch a successful raid on sterling bears. Not only are there well-known divisions at the top of the Government, but the LBS believes there is no combination of measures of the money supply which is sufficiently reliable for a domestic restatement of the Medium Term Financial Strategy.

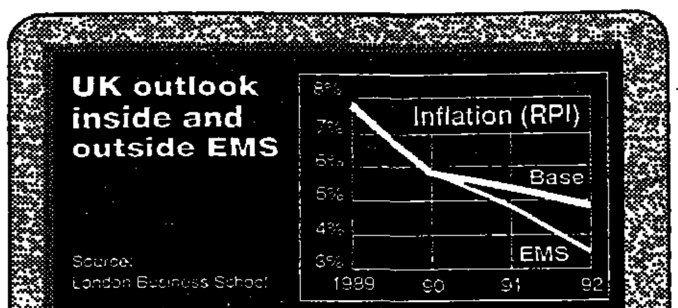
On the LBS projections, underlying inflation will remain above 5 per cent in 1992. To go much below this rate would require another recession or some alternative shock to expectations. The latter could be provided by a firm peg against the D-Mark which would set a non-discretionary guide for monetary policy.

The LBS simulation printed here differs from that published in the LBS Outlook in assuming that British entry takes place, not now, but in the middle of 1990, the earliest date hinted at by the Chancellor. The LBS urges joining at a D-Mark rate of 3.10 to 3.30, assumed to be equivalent to a sterling index of 94; and base rates have to rise initially on entry to establish credibility. Nevertheless, inflation is down to 3½ per cent by 1992. There is a modest initial loss of output due to the higher exchange rate, later recovered. (With credibility gains included, the inflation rate could be down to 2 per cent or 3 per cent).

The LBS simulation does not, of course, prove the case for entry but illustrates it. The simulation is at least more plausible than that of the Liverpool Group which suggests that inflation will be down to 1½ per cent by 1992 despite a 14 per cent or 15 per cent devaluation of sterling.

Of course, the technicalities of an exchange rate-based counter-inflationary strategy will never appeal to the popular imagination, in the way that the vision of a Europe, where there are no border checks and no money-changers at frontiers, may indeed do. The task of economic liberals is to harness the two aspects together and not to leave the *dirigistes* and corporatists with the best tunes.

UK outlook inside and outside EMS



	1989	1990	1991	1992
Inflation (RPI) %				
Base forecast	7.8	5.8	5.3	4.8
EMS variant	7.8	5.8	4.8	3.5
Output (GDP) %				
Base forecast	1.9	2.6	2.4	1.8
EMS variant	1.9	2.6	2.2	2.2
Current Account (£bn)				
Base forecast	-16.3	-13.2	-10.9	-9.2
EMS variant	-16.3	-11.2	-9.3	-9.2
Exchange rate (sterling index)				
Base forecast	92	90	90	90
EMS variant	92	93	94	94
UK base rate %				
Base forecast	13.4	12	10.3	10
EMS variant	13.4	12.8	10.5	9

ASSUMPTIONS
Sterling index remains at 90 from 3rd qtr. of 1989 onwards in Base case.
EMS variant assumes sterling joins EMS in 2nd half of 1990 at rate equivalent to 94 on sterling index

BOOK REVIEW

The fall of a businessman

NIGHTMARE: The Ernest Saunders story
By James Saunders
Hutchinson, £14.95p

THIS is a story of corporate intrigue. It seems that there was this businessman called Mr Ernest Saunders who took over the running of Guinness, a dreadful old company on the brink of collapse, and by dint of jolly hard work and some good ideas turned it into a cracking success. Then just as everything was going swimmingly, he was asked to dinner by two *very* distinguished City gents – a Mr Reeves of Morgan Grenfell and a Mr Forbes of Cazenove – who told him he really ought to make a big takeover bid.

Well, Saunders was a bit uneasy, and he never really understood all those complicated takeover rules, but the bankers pushed for action and soon enough Guinness had bought the Arthur Bell whisky business! Then everyone said there ought to be an even bigger deal, and although Saunders was not at all convinced by the idea, he found himself *engulfed* by the general enthusiasm and next thing you knew he was bidding for Distillers!

It turned out that his main job was to handle the lobbying and public relations side, leaving the numbers men to do all the detailed stuff, and soon there were all kinds of strange people wandering around in his office. Anyway, Guinness won the day – and then things started to go wrong. Saunders had made some enemies along the way – most of them Scottish and all of them – *all of them!* – with some kind of axe to grind. There was an old sourpuss named Sir Thomas Risk, who took to sort of *breathing* down the phone at the most inappropriate moments, and was interested in picking up banking business: a Mr John Chiene was cross because Guinness wouldn't give his firm more of its stockbroking business: Sir Nigel Broackes was interested in supplying shipping services, and so on and so on.

There were other odd characters around too. Saunders had been enormously impressed, at a half-hour breakfast meeting, with a Mr Ivan Boesky, who could produce some terribly useful contacts in the US, and so Guinness had put $100m into one of his investment funds. A red-bearded bellyacher from the Scottish Amicable was another matter altogether, and as for the public relations men! They were *dreadful.* Whereas Saunders went round briefing journalists, his enemies "fed them all sorts of stuff."

Anyway, things moved from bad to worse, and the worst thing of all was that the Establishment decided that the time had come to make an example of someone in the City. "One big attack on a high-profile company, identified with one high-profile person, was the ideal strategy. It might be all that was necessary to remove potential electoral embarrassment concerning City scandals.

There was a general election to come in 1987, and Thatcher wanted the decks cleared.

In May of that year, Saunders was arrested. So began the Nightmare, the title of a well-written account of the Ernest Saunders story by his son, James. As the blurb tells us, the book "shows how a career and a family can be destroyed when the awesome power of the political and financial establishments are trained on an outsider whom they are determined to sacrifice." Well . . . yes. The book, inevitably, presents a partial account of these extraordinary events, to put it very mildly. Contrary to the impression given here, Mr Saunders never looked at the time like a reluctant passenger on the takeover train: rather, he appeared ferociously single-minded in his pursuit of victory, and seemed absolutely on top of the events around him. The motives ascribed to some of his opponents are absurd, and his version of events will cause well-justified apoplexy in the smarter parts of Edinburgh.

But even if you aim off by several miles to allow for family loyalty, and for Mr Saunders's own public relations skills, you are likely to be left with three unsettling thoughts about the Guinness affair.

One is that the City in general, and Morgan Grenfell in particular, deserve a fair measure of the blame for what happened. At various stages in the story, the urge to do a deal – to earn fees and to make the headlines – appears to have swept all notions of common sense to one side.

The second is that the arrests in 1987 did appear to be stage managed in a way that would secure the maximum number of headlines. You don't have to go even half way to accepting the conspiracy theory to wonder whether this was the best way to do things.

Finally, it is now over two years since Mr Saunders was arrested and still more delays are likely before he comes to full trial. That is much too long a period for someone to have to live in limbo.

Nightmare gives fascinating insights into Mr Saunders's personality. It will also infuriate most of the important people in the City that he has ever had dealings with. For both reasons, it deserves to be read.

Richard Lambert

Correction: an article about Japanese investment on this page yesterday stated that there were 14 Japanese computer plants in Europe. This should have read 14 Japanese computer printer plants.

OBSERVER

A shot gun wedding

■ Holland & Holland, the gunmaker, appears to have fallen to the French. Although, yesterday being a funny sort of day in London, there was no one around officially to confirm it, letters have gone to shareholders saying there has been an agreed bid by Chanel.

Earlier this year, there was talk of the gunmaker going to Asprey, the jewellers, which has premises just round the corner from Holland & Holland. It was thought to have been a good match, but no deal was worked out.

One of the Holland & Holland directors, Julian Cotterell, who was also unavailable for comment yesterday, is understood to have resigned in protest. He objects to such a traditional English firm going to foreigners and also says that there is no synergy between gunmaking and French perfume.

Still, the offer of 900p a share which values Holland & Holland at just under £11m, is likely to go ahead. Other directors own over 50 per cent of the shares. The chairman of Holland & Holland is Andrew Hugh-Smith, better known as chairman of the International Stock Exchange.

Magic carpets

■ Helmut Rothenberg, the founder and senior partner of the accountants, Blick Rothenberg & Noble, is retiring at the age of 75. A refugee from the Nazis, he came to England in the 1930s and set up the firm in 1945. About 30 per cent of its business is now with the German-speaking world.

One of his post-war breaks, Rothenberg recalls, came from an Irishman. "Bring me back to life," the Irishman requested. It turned out that before the war he had marked a form from the Inland Revenue "deceased." Since then he had made a large sum of money from dealing in carpets: too much indeed to conceal from the Revenue, so he wanted to be restored to official existence. Rothenberg won a year's grace from the authorities to sort out the man's accounts and was paid handsomely for his pains.

More recently Rothenberg claims that the secret of his firm's success has been never to have specialised in anything in particular. "Clients want to deal with people they know," he says, "and the partner stays with the client. The bigger the big boys get, the better for us. We have problems with recruitment nowadays, but so do they." There are, he reckons, about a dozen comparably-sized accountancy firms in London, and they are not yet about to be gobbled up by the big eight; nor will they bring in lawyers as partners.

But there has been a change, he says, between corporate and private clients. "In the old days the company chairman always wanted you to do his mother-in-law's accounts as well, and you would add perhaps £100 to the bill. Now they are quite separate."

Backing Mackay

■ Writing of lawyers and accountants reminds one that the Prime Minister has never quite made it clear how far she stands behind Lord Mackay and his proposed legal reforms. It is not yet absolutely certain either that they will be in the next Queen's Speech. If they are to be, the Lord Chancellor will need to have refined his proposals within the next two or three weeks. If they are not, it is very unlikely that they will be in a Queen's Speech before a general election: then the whole process of green papers and consultation would have to start again. Perhaps Mrs Thatcher could speak up a bit about whether she wants the reforms or not.

"Isn't single/double summer time an infringement of sovereignty?"

Kennedy talk

■ Representative Joseph Kennedy is proving an embarrassment to the family tradition. Not only does he lack the charm and intelligence of either his father (Robert, the late Senator and Attorney General) or his uncle (the former President); he is also short on eloquence.

At a House sub-committee hearing this week, Kennedy was questioning an official on Third World debt. He said: "You know, I really appreciate your testimony here this morning. I just can't believe you can lay out so many facts that are basically an indictment of the entire system at the moment, and then when we come down to asking you to help fix it, you say you don't want to hurt anybody. Give me a break, you know – if we had a problem here, we're going to end up dealing with it."

Japan's fall

■ A significant change may be taking place in Japan. It used to be said that if Europe and the US were to compete, they would have to follow the Japanese example and put more and more of their top graduates into manufacturing and fewer into the financial side. Now it looks as if the Japanese themselves may be picking up western habits.

Last year only 32 per cent of Japanese university science graduates went into manufacturing businesses compared to 45 per cent in 1986. On the other hand, the proportion going into finance, real estate, insurance and other such trendy sectors has jumped from 6 per cent in 1986 to 12 per cent last year. Perhaps we just have to be patient, and the Japanese will become as decadent as we are.

Back to steam

■ The novelty and sense of adventure of the London transport strikes is wearing off. No one we called at the Treasury yesterday was there to answer the telephone. A senior banker failed to turn up for an appointment: the traffic was much worse than last week when most people seem to have taken the day off; and it was raining.

London Underground, however, chose the latest day of disruption to announce that it plans to bring back steam locomotion for the first time in 30 years. A special train – pulled by a vintage engine built in 1898 – will run between Chesham and Watford on the Metropolitan Line this weekend and next to celebrate the centenary of the line's Chesham branch. Moreover, London Underground guarantees the train will run.

Steven Butler reports on the instability that is likely to linger in China

'A confusion of fact and fiction'

Road crews were out all last week on the Avenue of Eternal Peace in Peking, laying down patches of fresh black asphalt and painting on bright white lines. They were repairing the damage caused when scores of tanks and armoured personnel carriers chewed up the road just over three weeks ago in a bloody assault on unarmed pro-democracy protestors.

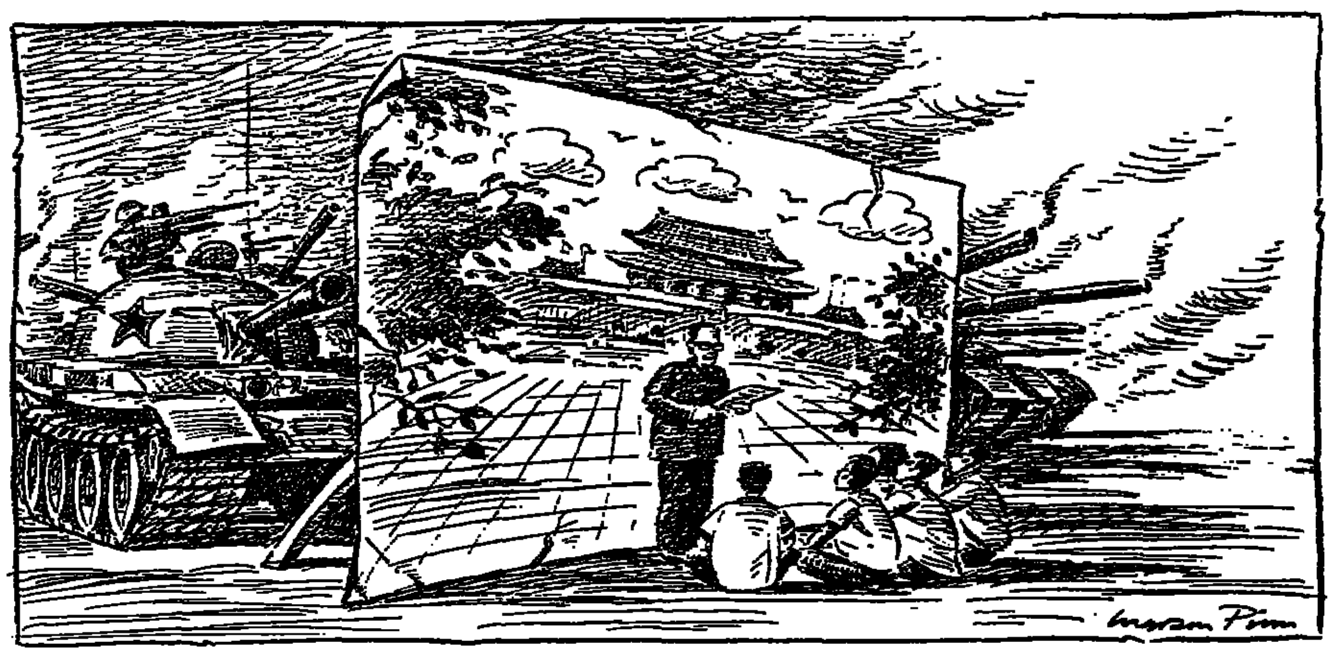
Behind the vermilion gates of Zhongnanhai, the Communist Party headquarters, a different sort of patch-up job was proceeding. The party politburo, packed with ageing hardliners, met to appoint a new leadership.

Jiang Zemin, the new Party General Secretary replacing Zhao Ziyang, purged for his sympathy with protesting students, is a lowest common denominator, the man acceptable to warring factions. He is a political hardliner with a record of moderate economic reform as mayor of Shanghai, yet he comes to what should be the most powerful job in China without a national political constituency and is at the mercy of China's old men. The mix looks singularly unstable.

Despite triumphant red headlines announcing the new leadership in the People's Daily, the Communist Party newspaper, the party's prestige and credibility have sunk to an all-time low. Crisis and turmoil are expected to continue in an economy suffering from stagnation and inflation. China's growing international isolation threatens both diplomatic contacts and at least $1bn in economic aid.

But none of the problems that provoked people to take to the streets, from corruption and nepotism at the highest level to suffocating restrictions on the press, has been seriously addressed. Instead, an ideological campaign was launched to study a congratulatory speech that Deng Xiaoping, China's paramount leader, delivered to martial law commanders. After reading a copy of the speech many people in Peking wonder whether the old man, at 84, is losing his grip on reality.

"It's almost as though no one has told him what happened," says a senior diplomat in China. According to Deng: "If we had used tanks to roll across (the protesters) this would have created a confusion of fact and fiction across the nation." Yet it is the overall tone of the speech that leaves an impression that Deng was not just spouting propaganda but may have seen only the army's crudely doctored videos of what happened.



Deng says that 2 per cent annual economic growth is all China needs to be a moderately developed nation by the middle of the next century. At 2 per cent, China would be moving backward.

An even more disturbing aspect of the speech, perhaps, is that Deng does not see the relationship between granting more economic and personal freedom and the demand for political change. Instead he blames the protest on vague international and domestic trends, as though a reformist ether had drifted across the border from the Soviet Union. Consequently, Deng wants to continue reforming the economy, saying that all that is needed is a bit of political indoctrination.

Although in public the nation fell quickly into line, praising Deng's analysis, it took only days for Deng's speech to become the butt of private ridicule in Peking. There is no way to know if the self-selecting minority who will speak to foreigners reflects commonly held views. Yet it is striking that inhibition against speaking should break down so quickly, despite an atmosphere of police terror.

The Chinese people have seen this before, and they know how to protect themselves. Every time in the past 30 years, when they have gone through the motions of supporting the latest political campaign, they have later come to admit they were acting.

It will be no different this time. It could even be easier to lie now, because with the government held together by an old man, whose energies and health are obviously fading, the deceit need not go on very long. This underpins the fundamental instability of the Government. A semblance of stability among the leadership is likely to endure for a year or two, provided Deng lives. But what happens after that?

The wording of the denunciation of Zhao Ziyang indicates continuing tension between hardline and more reformist elements in the leadership, which is riven by factional alliances based on personal loyalty. Zhao remains a comrade and a party member who commited only mistakes, not crimes, while he made useful contributions to economic reform. Many of his lieutenants have survived politically, although they have been removed from the highest organs of power.

It is possible to envisage many plausible outcomes when Deng goes, from a complete victory by the hardliners, backed by President Yang Shangkun who controls the army, to a comeback by the reformers, who are essential to management of the economy. Yet no plausible scenario involves stability and continuity.

Foreigners, whose involvement is critical for development for the economy, have been frightened away. The immediate problems alone are serious enough. Inflation, at nearly 30 per cent a year, seems likely to go even higher as a result of the recent disruption. An austerity programme has hit rural industries, boosting unemployment, and many enterprises are short of cash. The summer harvest appears to have been good, but peasants will be unhappy if the banks run short of cash when it comes time to pay them, as is likely. Keeping the living standards of both workers and peasants from declining could prove impossible.

Beyond this is a raft of serious long-term problems, including bottlenecks in energy and transportation, environmental degradation, rapid population growth, declining national revenues, widespread illiteracy, and an industrial system that seems impervious to management reforms. Prices are highly distorted and badly in need of readjustment and liberalisation.

The liberal reformers under Zhao Ziyang had no ready solutions to these problems, and are probably at least as responsible for the economic mess as the conservatives. Yet Zhao was willing to try new ideas, supported by a set of liberal think tanks that kept churning them out.

As liberalism is replaced by fresh talk of class struggle, the crop of new ideas could be severely blighted. The regime recently ordered the hunting down of seven leading intellectuals; nothing symbolises the new atmosphere better than the armed troops stationed at the Academy of Social Sciences.

It is an atmosphere that chillingly reflects the reality of an old élite, out of touch and struggling to maintain a grip on power. It is not an atmosphere in which China's warring politicians are likely to find much energy to address the nation's pressing issues.

Putting the party back on track

THE biggest shock of the democracy demonstrations for Deng Xiaoping, China's paramount leader, must surely have been how many Communist Party members joined in.

In an attempt to restore party order, the party's discipline inspection commission has announced a campaign to purify the party by dismissing and punishing errant members. Yet with one in four adult urban males belonging to the party, and a total membership of 47m – almost 5 per cent of the population – this would require an big national effort.

The party emerged at the end of the Cultural Revolution with about 35m members, which was agreed to be an extraordinary figure. Yet at that time, despite initial efforts to purge radical leftists, no one had the stomach for yet another struggle. Instead the party absorbed a batch of people formerly seen as rightist intellectuals, as well as managers and technicians important to China's modernisation drive.

The result was an organisation that was uncontrollably large, divided among political generations who hold differing political views. If the past is any guide, the next step of identifying miscreants and punishing them could split the party into warring factions at every level.

The most likely outcome is that leftists, who have been passed over with the recent emphasis on technical skills, will seize an opportunity to revive their political fortunes. If the party's millions of members become preoccupied with political survival, attending meeting after meeting and struggling against their colleagues, they will have little energy left to tend to their jobs. And there will be little desire for taking risks to solve economic problems.

LOMBARD

A supine policy on charities

By Michael Prowse

SUPPOSE I have three loves: guns, the Moonies and market forces. You may be surprised to learn that I can enlist your support for all three causes. I simply enter my favourite rifle club, the Sun Myung Moon Foundation and the Adam Smith Institute on a Give-As-You-Earn form. Tax relief at my top marginal rate is credited automatically. And the Chancellor must make good his shortfall by raising taxes on everybody else.

Under British charity law, rifle clubs, the Moonies and the Adam Smith Institute have the same status as Oxfam, Dr Barnardo's and Save the Children. Other tax-privileged charities include the British Hedgehog Society, Harrow School and a group which examines the *facial expressions of the dead* to see whether there is an after-life.

The extraordinary laxity of charity law reflects its origins in the preamble to an Elizabethan statute of 1601 and subsequent centuries of bumbling case law. The Elizabethans took seriously the view that charity was mainly about relieving poverty. But over the years the courts bowed to powerful interest groups and steadily extended the scope of charitable status. By 1891, in the influential Pemsel case, Lord MacNaghten was able to classify charities as falling under four heads: the relief of poverty, the advancement of education, the advancement of religion and – wait for it – "other purposes beneficial to the community."

This last heading opened the floodgates. For example, it justified tax relief for rifle clubs on the grounds that they advance the efficiency of the armed forces – reckoned beneficial to the community.

Charities play an increasingly significant role in the economy, perhaps accounting for as much as 4 per cent of gross national product. They receive more than £2½bn a year in state grants and tax concessions. Ministers constantly urge individuals to give more generously. In such circumstances you might think a modernisation of charity law would be a priority.

No such luck. The Home Office view is that nothing can be done. Seminars were held last year to see if an improved definition of charitable status could be agreed. But the towering intellects present (which included several Chancery judges) just could not see a way of bettering the status quo. Last month's white paper even claims that the present legal framework has been "sensitive to changing needs whilst maintaining the fundamental principles on which the concept of charity rests." It concludes, lamely, that there would be "few advantages" and "many real dangers" in attempting wholesale redefinition.

A more supine attitude is hardly imaginable. It is nonsense to argue that we must accept the decisions of past governments and courts when they themselves were prepared to make amendments in the light of changing opinions and circumstances. There is no reason why a host of bizarre organisations – typically run by the middle classes on behalf of the middle classes – should continue to enjoy charitable status and tax privileges.

One way to close some of the loopholes would be to adopt a definition of charity which placed primary emphasis on the relief of poverty. A religious or educational organisation would then warrant charitable status only if it could show that its activities mainly benefited poor people (say the bottom third of the income distribution).

Take Harrow School. It was established to educate children from poor local families. As such it deserved charitable status. But gradually, its commitment to the poor waned. It now charges some of the highest fees in the country and draws pupils from the nation's most privileged households. On a sensible definition of charity, Harrow would no longer qualify for subsidies from taxpayers, most of whom are poorer than the parents of the children it educates.

In charity law, as in everything else, the best should not be allowed to become the enemy of the good. The fact that a perfect definition of charity is not available is not an excuse for throwing up our hands and doing nothing.

LETTERS

'Quality is one of three key words'

From Mr Tim Renton MP.

Sir, I write in reply to the recent letter from the chairman of the Independent Television Association (Letters, June 22) about the Government's proposals for awarding independent television licenses after 1992.

I am glad that Mr Dunn accepts that there will be a more competitive future for the broadcasting industry and that the public could benefit from more choice of television viewing. However, I believe his judgment about the future quality of British television to be wrong.

He has assumed that the process of auctioning the franchises must be in conflict with the principle of good quality television. As the white paper makes clear, and as the Home Secretary repeated in his statement in the House of Commons on June 13, there is no question of a *"laisser faire"* arrangement. All bidders for Channel 3 and Channel 5 licences will have to satisfy the Independent Television Commission (ITC) that they have satisfied the quality threshold.

This will be no mean task. In the case of Channel 3 licences, the threshold will include a requirement for programmes, both of regional interest and made in the region.

For both Channel 3 and Channel 5 there will be requirements for high quality news and current affairs, a diverse service calculated to appeal to a wide variety of tastes and interests, and a reasonable proportion of programmes of high quality. Twenty-five per cent of all original productions will be made by independent producers. No bidder unable to satisfy the quality threshold will even get to the stage of having his bid considered.

Mr Dunn argues that a competitive tender for licences will lead to a reduction in quality and a narrowing of choice unless the Government intervenes to correct the inevitable skew towards profit maximisation at the expense of quality. But that is precisely what we have done. All these measures have been designed to ensure that the range and quality of British broadcasting are maintained.

The new quality threshold is not less rigorous than that in the 1981 Broadcasting Act, but it is different. The reason is that, as channels proliferate, it makes less sense for regulators to try to lay down in detail what programmes are shown, and when. Increasingly the viewer and listeners will decide for themselves what they want to watch or listen to.

Mr Dunn argues that it is impossible precisely to define quality in television. I agree with him. I do not envisage that the ITC will attempt a definition of the word "quality" that would satisfy a lexicographer. Their task will be to ensure that the programme service offered by bidders meets the quality threshold.

This is nothing new. The IBA has always had the duty to ensure that those seeking licences for ITV are capable of providing a service which *offers a high general standard* in all respects. The ITC will continue that role. All that we are requiring the ITC to do is to make public their reasons if they consider that any bid does not meet these criteria. I am not advocating some form of new intellectual hoop through which either those desiring licences or the ITC will need to jump.

He also argues that the quality threshold and performance bond will be insufficient to ensure a consistently high standard of programmes. Of course he is right to say that the preservation of quality depends on top talent plus adequate funding plus reasonable stability. But the response to the quality threshold submitted by the successful applicant and written into his licence will set the target that he must achieve. The ITC will have a range of sanctions which will include – in the last instance – the removal of the licence and forfeiture of the substantial performance bond if the licence conditions are not met.

Mr Dunn's comments about bids involving other European Community countries are misleading in several ways. He does not acknowledge that the restriction on foreign control in existing legislation does not apply to EC companies. He says nothing about our Treaty of Rome obligations, or our readiness to pursue reciprocity questions in Brussels. And he ignores the fact that no bid (whether it involves other European countries or not) for a regional Channel 3 franchise will get past first base unless it can satisfy the ITC that it can genuinely meet the requirement to show regional programmes.

Mr Dunn is incorrect in saying that the purpose of the new arrangements is to maximise the revenue for the Treasury. Their purpose is to provide broadcasting services which maintain the desired range and quality of programmes, and which provide a proper return to the taxpayer for the use of a scarce resource.

Quality is one of the three key words in the Government white paper, alongside competition and choice. The Government is absolutely committed to the preservation of the range and quality of programme services. The proposals which we have put forward have as their objective the maintenance of the quality of British television, while at the same time enabling our broadcasting industry to function in the highly competitive future environment.

Tim Renton,
Home Office,
Queen Anne's Gate, SW1

Broadcasting by auction

From Mr Simon Albury.

Sir, Some of your correspondents on broadcasting by auction have failed to emphasise the central flaw in the Government's proposals: franchises will be won by companies which propose to spend the least on programmes.

Our response to the Broadcasting white paper pointed out that under the crude auction proposals, the more franchise applicants planned to spend on programmes, the less they would have left to bid. Competitors in the Channel 3 and 5 auctions will seek to judge what is the cheapest acceptable set of programmes proposals that will scrape over the quality hurdle so that they have the maximum amount of money to devote to their bid.

We urged the Government to define the range of programmes which Channel 3 and the new Channel 5 would broadcast, to include a guaranteed proportion of hours and resources for arts, education, religion, drama, documentaries, children's programmes and current affairs. The Home Office ignored this.

We proposed that, if there had to be an auction, applicants should quantify what they would spend on programmes of different types, and that this should be weighted and included as an element in the bid, alongside the pure cash offer. As tax payers and viewers are (mostly) the same people in different roles, this proposal met the Government's goal of providing the best return for the use of a public resource.

We must hope that Parliament will find some mechanism like this to re-assert the interests of the viewer when it considers the Broadcasting Bill over the next year – or better still, make quality of programme service rather than money the final criterion for determining which companies are awarded franchises.

Nothing in the Home Secretary's recent statement on broadcasting alters the fact that money to the Treasury is the Government's over-riding concern and viewers will be offered programmes of lower quality and narrower range.

Simon Albury,
The Campaign for Quality Television,
PO Box 321,
Manchester

Getting around London

From Mr Richard Miles.

Sir, London Regional Transport asserts that it needs to increase fares in order to reduce the number of passengers using the London Underground system, because it is "no longer possible to crowd more people in."

The impertinence of this is almost unbelievable, given the level of efficiency as which LRT operates.

A few working escalators in the tube stations would quicken the flow of people, as would shorter intervals between trains. These (at least on the Northern line) are generally blamed on "non-availability of staff" or "defective trains." Both, surely, are matters of managing existing assets rather than of investment. The management of LRT should examine its own failings before trying to penalise its customers.

Richard Miles,
15 Brandreth Road, SW17

FINANCIAL TIMES
Thursday June 29 1989

THOUSANDS SEND MESSAGE OF PATRIOTISM TO YUGOSLAV AUTHORITIES

Serbs celebrate on Field of Kosovo

By Judy Dempsey in Gazi Mestan, Kosovo

HUNDREDS of thousands of Serbs gathered yesterday on a remote field in Yugoslavia to witness and take part in a day of Serbian triumphalism. And they came from all over the world - the US and Canada, Australia and Sweden.

The Field of Kosovo (the size of London's Hyde Park) commemorates the 600th anniversary of the Battle of Kosovo, when the Turks defeated the Serbs and drove them out of this rugged and poor land.

Kosovo is the cradle of Serbian culture and yesterday the Serbs returned to send an *unmistakeable message of* patriotism to the country's communist authorities which has been struggling to contain a growing mood of nationalism and a worsening economic crisis.

It was a day of triumphant celebration, an outpouring of nationalist sentiment for the vast crowds who packed the scene of the bloody and fateful battle.

They embraced their fellow *Serbs and joined* with them in waving vast portraits of Mr Slobodan Milosevic, Serbia's powerful president whose unashamedly nationalist campaign for Serbian unity has undermined the unity of the Yugoslav Federation since the death of President Tito in 1980.

Mr Milosevic, the most dominant and divisive figure in Yugoslavia, had planned this event for months, since securing earlier this year changes in the federal constitution which returned to Serbia full control over Kosovo, a virtually separate republic since 1974 when *President* Tito gave it autonomy to block Serbian nationalism. In so doing, he divided the Serbs from a spiritual homeland and opened a sore which Mr Milosevic is seeking to close

In doing so, however, he has stirred fears among the other republics, particularly Croatia and Slovenia, of a return to Serbian ambitions to rule over all of Yugoslavia, Serb and non-Serb alike. The country was fissiparous before Milosevic, but has become more so since his rise.

There is no doubt he enjoys furious support for his actions. An unremitting refrain of "Slobo, Slobo," roared across the Field. They chanted: "Kosovo, Kosovo...Yugoslavia, Yugoslavia," as the sun beat down on the sea of flags and portraits.

"After several decades, Serbia has restored its statehood and *its national and spiritual* integrity," Mr Milosevic told the enraptured crowds.

Speaking from a lavishly decorated podium, decked with nationalist and Communist symbols and filled with a large orchestra, *he told his* supporters that the country's former "leaders and politicians, with a feudal mentality, had imposed upon the Serbian people the feeling of guilt towards the others and even towards themselves."

"But now the moment has come when, standing in the Field of Kosovo, we can openly and clearly say: 'No longer!'"

The Serbs responded with rapturous applause. "We are home again and thanks to him: he is great," said one lady, who had travelled from Illinois, especially for the event.

"Milosevic has given back the Serbs their voice, their soul," she added, wearing a tee-shirt which displayed every available badge immortalising Mr Milosevic. "But please, she added, "do not quote my name. *I don't want those Albanians to string me up.*"

The ethnic Albanian majority, which make up 80 per cent of the 1.7m population in Kosovo, were excluded from yesterday's commemorations, even though *they had fought* alongside the Serbs in the Battle of Kosovo.

Many Serbs were ignorant of this and seemed to believe that part of the Serbian press which for months has accused the *ethnic Albanians* of rape and pillage in order to drive out the 200,000 Serbs from Kosovo altogether.

"With Slobo, Kosovo again belongs to us," said young Serbs who had travelled down from Belgrade.

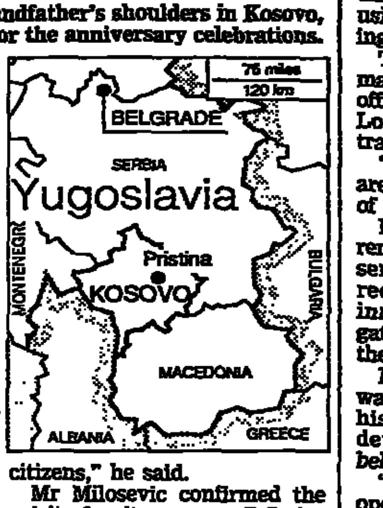
Since April, 237 Albanian intellectuals have remained in prison for protesting against *the constitutional changes.* Purges are continuing in the party and media in Kosovo, which, though the leadership is mainly Albanian, is now firmly under the influence of Serbia.

Mr Rahman Morina, the tough Kosovo party leader who until recently was head of the Kosovo police, justified the continuing crackdown on the grounds of "defending the constitution and of wiping out separatists and nationalists."

Mr Milosevic warned his audience that those battles lost in the past were due to disunity among the Serbs. "Today, Serbia is united, equal with the other republics in Yugoslavia, and ready to spare no effort to improve the material and social life for all its citizens," he said.

Mr Milosevic confirmed the spirit of unity among all Serbs. *But his actions are also presently confirming the fragility* of the Yugoslav federation.

A Serbian boy sits astride his grandfather's shoulders in Kosovo, southern Yugoslavia, yesterday for the anniversary celebrations.



Queen's English ain't wot it used to be says Prince

By David Thomas in London

THE heir to the British throne, the Prince of Wales, startled a group of senior businessmen and ruffled a good many feathers yesterday by launching a stinging attack on standards in UK schools and confiding that even his own staff had problems with the Queen's English.

"All the people I have in my office, they can't speak English properly, they can't write English properly," he admitted.

Prince Charles revealed that he had to correct his own letters: "English is taught so bloody badly. That's the problem."

His remarks started an instant row when they leaked out.

Mr Kenneth Baker, the Education Secretary, said: "Prince Charles echoes the concerns of many parents. That is why we are introducing a national curriculum with English as a core subject."

Mr Nigel de Gruchy, general secretary-elect of the teachers' union, accused the prince of using bad language and uttering ungrammatical sentences.

The dozen secretaries and managers in Prince Charles's office at St James's Palace in London reacted with well-trained *sangfroid.*

"We are not upset by it and are not making a mountain out of a molehill."

Prince Charles's off-the-cuff remarks were made to about 20 senior executives who have recently visited run-down inner city schools and had gathered in London to report their findings to the prince.

He listened carefully until he was prompted into expressing his views by a remark on deteriorating standards of *behaviour among the young.*

"The whole way schools are operating is not right. They don't educate character," he argued.

Prince Charles, it is remembered, was educated at Gordon*stoun, a Scottish private school* noted for its character forming.

His worries focused on the teaching of English.

A report issued by the National Curriculum Council this month was much criticised *for failing* to stress grammar and for being too academic.

The prince echoed these criticisms. "All the nonsense these academics come up with," he interjected.

Prince Charles favoured a *more traditional approach* to the teaching of English.

"I don't believe you can educate people properly unless you do it with a basic framework and a proper drilling system."

The businessmen were urged to develop much closer links with schools by the prince, who later announced the creation of a new organisation for that purpose.

THE LEX COLUMN

Lord Weinstock's second coming

The sharp drop in May's US *leading* indicators is a reminder that concerns are beginning to surface about recession rather than inflation. But any suggestion of further Fed easing is surely premature, and next week's US retail sales and inflation figures will give a far better clue to future Fed policy.

GEC

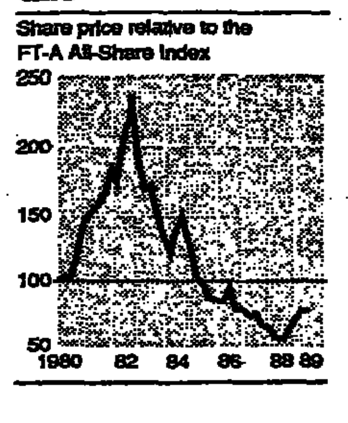
GEC's stock market rehabilitation proceeds apace. Yesterday's full year figures confirmed that earnings per share have lifted off their long plateau, and saw pre-tax profits break their previous record of four years earlier. The shares responded by finally exceeding - by a narrow margin of 2p - the previous all-time high set before the crash.

The market seems out to persuade itself that the earnings recovery is sustainable. Last year's 13 per cent rise, runs the argument, can be repeated this year through a benign combination of organic growth and the early effects of the joint ventures; while the margin improvements to be gained from such as the Alsthom venture should mean that the following year will be at least as good again.

More fundamentally, the question is whether the shares are repeating a familiar pattern. Their atrocious performance since 1982 is partly the flip side of their astounding rise in the early years of the recession. The heart of the group still consists of defence, power generation and telecommunications. Then as now, these are businesses on quite different cycles from the economy as a whole.

But there is one big difference this time. The huge new joint ventures could well accelerate the rate of growth, but they pose corresponding risks. They take GEC into new territory, and clearly as a last resort. Ever since the Plessey bid was announced, the shares have commanded a premium to the market at 258p, they are on around 12 times this year's earnings. But while the market *is increasingly keen on low-risk investment,* the question is whether GEC still provides it.

GEC
Share price relative to the FT-A All-Share Index



Tokyo stocks

The Tokyo market must be beginning to think that a month is a long time in Japanese politics. Certainly, the month-long reign of Mr Sosuke Uno has not been a particularly fruitful time for equities; and every further step he takes towards the ignominy of resignation deepens the market's unease.

In itself, Mr Uno's career - or lack of one - is of little direct interest to equities. But the market appears to think that the image of a frolicking prime minister ill befits a party about to fight important city and parliamentary elections, and could well lead to significant losses for the ruling Liberal Democratic Party in both polls. There is no question of *the elections* unseating the Government altogether; and given the current level of pessimism about their outcome, it seems scarcely likely that they will unseat the market either.

None the less, the weight of *political foreboding* has been heavy on the market for some time, and could well get heavier yet. Mr Uno would not be easy to replace as Prime Minister; indeed, if there had been ample choice of candidates for the job, *he might never have* been chosen in the first place. But at this stage, drift seems more likely than disaster. The large institutional outflows, which weakened both the yen and equities earlier this month, seem to have been stemmed after the authorities made clear their displeasure. Certainly, funds have been fighting shy of equities since the Recruit scandal really began to claim its political toll; *but they cannot do so forever.*

Gateway

Through a combination of bad luck and misjudgement, Isosceles seems to have got itself into the same jam over Gateway as Mr John Fletcher did. Unable to match the opposition in cash, it has to rely on its paper for the difference. The resulting problem is partly that the market cannot check the value placed on the stub without access to the underlying assumptions. More fundamentally, greater detail is now needed on the proposed retailing formula than Isosceles has yet shown itself willing to provide.

Wasserstein Perella's response is intelligible enough. Since another 5 per cent or so added to the Isosceles stake could settle matters, a holding statement had to be put out while a view is formed on what the institutions think the stub is really worth. If the result is another 5p or so on the Wasserstein Perella offer over the weekend, it may be assumed that the price has lost contact with reality. But it can also be assumed that Wasserstein Perella is playing a macho game. KKR having backed off, WP will be the more anxious to be the first US buy-out house to do a big deal in the UK. This is all perfectly splendid for Gateway shareholders; whether it enhances the reputation of the buy-out movement is another matter.

Daimler-Benz

The West German stock market responded remarkably well to the news that Daimler-Benz, the country's biggest company, was planning a 1 for 10 rights issue. The company does not need the cash, and even if it did there is nothing in its recent performance to justify asking its shareholders for more money. Its shares are trading 43 per cent below their 1986 peak, its earnings are falling, and there are sufficient question marks about the group's long-term strategy to suggest that there are better ways to play the West German stock market than paying over 13 times prospective earnings for the privilege of owning Daimler shares.

The significant underperformance of the shares this year has been largely due to the knowledge that another rights issue was on the cards. The market is hoping that it will be smaller than the DM1.3bn raised by Deutsche *Bank earlier this year.* However, Daimler has never shown itself to be particularly sensitive to the feelings of the investment community. The West German stock market is still nearly a fifth below its May 1986 peak; and if Daimler turns out to be more greedy than expected, its cash raising exercise could easily puncture the recent strong rally in West German equities.

China recalls all ambassadors for meeting

By Robert Mauthner, Diplomatic Correspondent, in London

CHINA has recalled all its ambassadors for a special conference in Peking, probably to discuss how the country's international image, badly damaged by the bloody suppression of the students' pro-democracy movement by the authorities, can be repaired.

A spokesman at the Chinese *Embassy in Switzerland*, while confirming that the ambassadors were being recalled, declined to say exactly when the conference was taking place or for what purpose. However, western diplomats in Peking said it was scheduled for the first week of July.

Spokesmen at Chinese Embassies throughout the world went out of their way to stress that there was nothing out of the ordinary in ambassadors being recalled for consultations and that there was no connection with recent events in China. "It is part of our diplomatic practice," said an official at the Chinese Embassy in London.

The official pointed out that his ambassador, Ji Chaozhu, had already been in China since May 15 and was taking his holiday while back in his home country.

Embassies in the Philippines, Australia, Turkey, Egypt, Spain, Belgium, the Netherlands, West Germany, Greece, Bahrain, Poland, Italy and Qatar said that their ambassadors had either left already or would be returning to Peking very soon.

More than 20 Chinese diplomats in foreign missions have reportedly asked for asylum following the military crackdown and arrest of an estimated 1,800 pro-democracy demonstrators in China at the beginning of June.

Although China has accused the US, in particular, of interfering in its internal affairs by protesting against the brutal methods employed by the Chinese authorities and halting arms sales and all high-level contacts, Peking has, at the same time, emphasised that it wants to continue with its open-door policy towards foreigners.

Western observers believe the ambassadorial conference will probably result in a reaffirmation of that policy and concerted attempts to persuade Western governments to resume their aid and commercial contacts.

Confusion of fact and fiction, Page 15

US takes plunge over Pacific Rim

Lionel Barber examines Washington's motives for increasing its involvement in economic co-operation among Far East nations

JUST as it seemed that the US was about to miss the boat, the Bush Administration signalled this week that it was prepared to join a Pacific Rim initiative aimed at *increasing* economic co-operation among countries in the region.

The initiative is in part a response to the recent US-Canada free trade agreement and creation of a single European *market* by 1992. It is bound to increase fears that the world is breaking down into regional trade blocs at the expense of multilateral bodies such as the General Agreement on Trade and Tariffs.

Advocates of the Pacific Rim initiative such as Mr Bob Hawke, Australia's Prime Minister, are adamant they do not have a trade bloc in mind. "The countries in the region would not touch this with a *40ft pole," said Mr Hawke in* Washington this week. "[We] need to work for the success of an open multilateral trading system."

The Australians were quick to *dispel* reports that they are lukewarm about US membership of the group. The statistics show why: US trade with East Asia has doubled since 1982. In 1988, its trans-Pacific trade totalled $271bn, far more *than its transatlantic* commerce which last year amounted to $186bn.

While eight of the US's top 20 export markets are now in the Pacific, the Americans, in the words of one East Asian diplomat, serve as the "import basket" for the region's dynamic developing countries such as Singapore, Thailand and South Korea. Their growth depends on the US maintaining open markets.

The US, of course, sees the Pacific Rim initiative from a slightly different perspective. First, it offers a forum for managing the increasingly important bilateral relationship with Japan which Mr James Baker, US Secretary of State, described this week as a "world power." For the Pacific Rim initiative to succeed, Japan's financial might has to be offset by the US.

Second, the forum would offer the opportunity for Pacific Rim members to speak with one voice on global negotiations such as the Uruguay Round of the Gatt, as well as providing an informal means of co-ordinating economic policy with bodies such as the Group of Seven

So much for the theory, what about the practical efforts to get the forum moving? The Bush administration is taking *a broad approach. In his* speech to the Asia Society in New York, Mr Baker said the Pan-Pacific partnership should be a "multilateral mechanism" dealing with issues ranging from trade and economic affairs to environmental issues and cultural exchange.

Mr Hawke is more specific. He envisages a forum for Australia, Japan and Asean countries including Thailand and *Singapore which would* restructure the region's economies, prise open markets and bolster the Pacific Rim's voice in the Uruguay Round.

The Asean meeting in Brunei next month will provide an opportunity for further discussion. Mr Baker has hinted at further "new thinking." Mr Hawke, who wants a ministerial level meeting by November, will be anxious to keep moving. The direction, however, *is now set.*

US indicators fuel speculation

Continued from Page 1

durable goods orders, housing starts, consumer spending, and new car sales, which have all pointed to a marked slowing in the pace of activity since the late winter.

However, the economic picture is not clearcut since there has been a pick-up in the inflation rate this year, mainly, but not entirely, caused by a sharp rise in oil prices. Some of the Fed's regional presidents believe that a prolonged period *of restraint and low growth* may be necessary to reduce inflation, though several of the Washington-based Fed governors are more optimistic that inflationary pressures are not accelerating.

Reflecting the administration's desire to avoid too tight a monetary policy. Mr Michael Darby, under secretary at Commerce and a former Treasury official, said yesterday that recent indicators suggested *"moderation."*

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio		-	-	Dubrovnik	S	24	75	Malta	S	28	82	Rhodes	S	25	77
Algiers	S	29	84	Edinburgh	R	11	52	Manchester	R	13	55	Rio de J'o	-	-	-
Amsterdam	S	18	81	Faro	S	28	82	Manila	cl	34	93	Rome	F	27	81
Athens	S	30	86	Florence	F	29	84	Melbourne		-	-	Salzburg	C	14	57
Bahrain	S	35	95	Frankfurt	F	20	68	Mexico City	cl	23	73	San Francisco	C	14	57
Bangkok				Funchal	S	24	75	Miami	F	25	77	Seoul	F	27	81
Barcelona	S	27	81	Geneva	F	21	70	Milan	F	27	81	Singapore	F	29	84
Beirut		-	-	Gibraltar	S	29	84	Montreal	F	21	70	Stockholm	F	24	75
Belfast	C	14	57	Glasgow	R	11	52	Moscow	T	25	77	Strasbourg		-	-
Belgrade	S	28	82	Guernsey	C	15	59	Munich	R	13	55	Sydney	R	13	55
Berlin	C	19	66	Helsinki	S	26	79	Nairobi		-	-	Taipei	cl	34	93
Biarritz		-	-	H. Kong	F	31	88	Naples	S	28	82	Tangier	S	25	77
Bombay	F	30	86	Innsbruck	C	15	59	Nassau				Tel Aviv	S	29	84
Bordeaux		-	-	Inverness	R	11	52	New Delhi	*	-	-	Tenerife	F	21	70
Brussels	F	17	63	Islamabad	cl	37	99	New York	C	26	79	Tokyo	R	22	72
Budapest	C	19	66	Istanbul	S	25	77	Nice		-	-	Toronto	S	20	68
B. Aires	cl	15	59	Jakarta				Nicosia				Tunis	S	33	91
Cairo	S	35	95	Jersey	C	18	64	Oporto	S	22	72	Valencia	C	27	81
Cape Town	C	15	59	Jo'burg				Oslo	F	19	66	Venice	T	25	77
Caracas	cl	27	81	Lima	Na										
								Paris		-	-	Vienna	R	16	61
Casablanca	S	26	79	Lisbon	S	24	75	Peking	C	33	91	Warsaw	F	27	81
Chicago	S	17	63	London	C	16	61	Prague	F	15	59	Washington	C	24	75
Cologne	C	18	61	Los Angeles	F	16	61	Reykjavik	S	11	52	Zurich	F	18	64
Copenhagen	F	20	68	Luxembourg	C	14	57								
Corfu	S	27	81	Madrid	S	27	81								
Dallas		-	-	Majorca	F	27	81								
Dublin	C	15	59	Malaga	S	25	77								

Readings at mid-day yesterday
C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

UK to seek alternatives to Delors plan

Continued from Page 1

ing of her position at Madrid, will signal that the Treasury will start work immediately on different options.

There were clear indications at Westminster that her stance in Madrid had won the support of most of her own party.

A motion congratulating Mrs Thatcher on her stance last night attracted the support of both the "pro-European" wing of the party and of *those associated with* a strident defence of British sovereignty against encroachment from Brussels.

Despite signs that some Conservatives will be unhappy with the outcome, the motion was being promoted by senior party managers as evidence that Mrs Thatcher had acted to heal the rift which damaged the Government's performance in the recent European elections.

The Treasury studies, which are likely to receive contributions from Mrs Thatcher's own policy unit and from the Bank *of England*, will *focus in* particular on reducing the Community control of national fiscal policies implied by the Delors report.

The second and third stages of that report suggest the eventual merging of the powers of national central banks into a new European Central Bank System, the creation of a single currency and, crucially, the transfer to the EC council of ministers of control of member states' budgets.

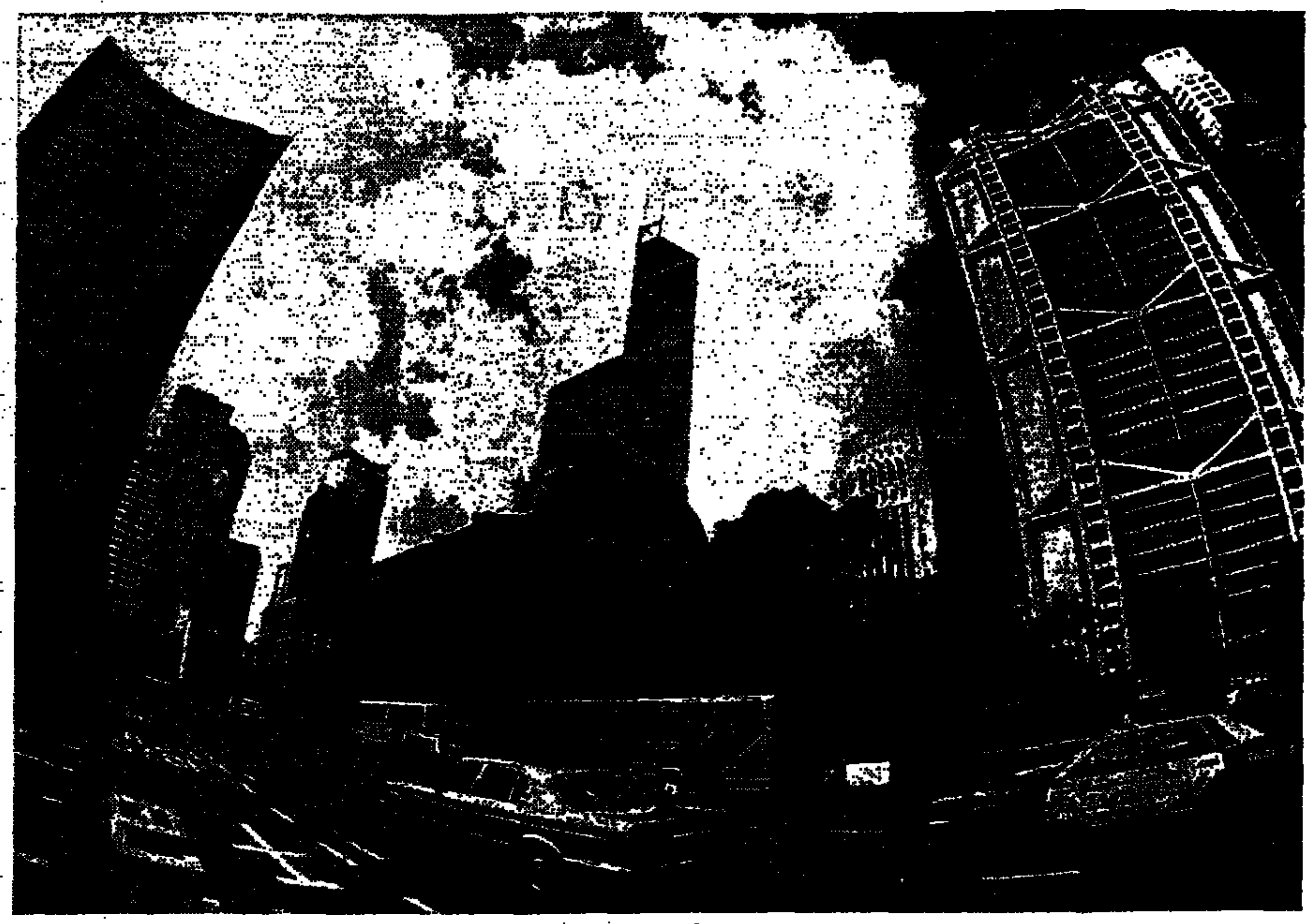
However, Mr Nigel Lawson, the UK Chancellor of the Exchequer, will seek to draw up an *alternative* plan which would imply greater monetary co-operation but would leave national parliaments with control of their own spending

SECTION III

FINANCIAL TIMES SURVEY

The view of 1997 has been permanently changed following Tiananmen Square. Thousands of people are starting the process of emigration and investment decisions have been postponed. Now the task is to rebuild confidence, writes **John Elliott**

A new set of fears



The Bank of China building: unlucky angles, but no longer the main preoccupation

HONG KONG

The sharp angles of IM Pei's striking new 72-storey Bank of China building have taken over the skyline of Hong Kong Island during the past year, piercing the clouds and providing the greatest foretaste of China's resumption of sovereignty in 1997.

People in nearby buildings, ranging from private flats to the governor's house and the Hongkong and Shanghai Bank, have moved desks, pictures and mirrors to ward off evil spirits which, according to the superstitions of Chinese *fung shui*, will emanate from the building's triangular structure. But the building has demonstrated China's commitment to the colony and no one has resented it.

The reality of Tiananmen Square has shocked the Hong Kong Chinese out of this almost lethargic mood. No longer is it the risk of *fung shui* spirits casting evil on behalf of Peking that worries people. Now there is a real fear of crushing repression by China's People's Liberation Army some time in the future. The view of 1997 has been profoundly and permanently changed.

"I know for foreigners the pictures on television every evening of the army crushing the students, and now of the purges, must be horrifying," says Dame Lydia Dunn, senior member of the Executive Council, Hong Kong's mini-cabinet. "But imagine the shock of the impact on me as a Chinese – our hopes have been dashed."

"The community is still in a state of shock as a result of these events and it is impossible to tell quite how long that shock will last or what its effect will be," says Sir David Wilson, the governor.

This has stemmed from two factors. First, there was the sheer cruelty of the army crackdown. Second, the repression dashed almost euphoric hopes of a more democratic era which had been raised by the peaceful student demonstrations. The government's action appeared to put at risk the past 10 years of liberalisation which had been making it possible to believe that a capitalist and increasingly democratic Hong Kong might be able to live inside communist China. In the official parlance, "one country two systems" might work.

Until the crackdown, worries about 1997 were concentrated on the risk of Hong Kong decaying as an internationally important financial and trading centre because of Communist interference or bureaucratic hassles. Such vague economic worries were mainly felt by leading businessmen. Now they have turned into real fears felt by the whole community, and this has bred a sense of isolation and uncertainty.

Thousands of people have started emigration moves that might swell the current brain drain of about 42,000-45,000 people a year. Investment decisions have been put off and people are anxiously watching Guangdong, the prosperous Chinese province adjacent to Hong Kong, where 2m or more Chinese worker's are employed by the colony's companies and where an estimated 20 per cent of Hong Kong's currency is openly in use.

The number of property deals in Hong Kong has slumped and prices are expected to fall. Spending in shops has declined, as have hotel bookings. Some forecasters suggest that Hong Kong's economic growth rate might fall from an expected 6 per cent this year to 4-5 per cent, possibly sliding further to 3-4 per cent next year.

"Confidence is bad. It is not an easy time for any of us," says Mr Vincent Lo, a prominent young entrepreneur and convener of the right wing businessmen's Group of 89. He had cultivated close links with Peking and now, like many others, finds it difficult to adjust. "The economic foundations are strong but the emotional shock is large. It is a very difficult time," he says.

This mood of unease will continue and many businessmen suggest that there may well not be time for confidence in China to be rebuilt before 1997. "Running Hong Kong will be exceedingly difficult till 1997. The community sentiment is such that it will just not be possible to tell them to trust China and believe in the future any more," says Mr Allen Lee, an industrialist who is the senior member of the Legislative Council.

But this does not mean that Hong Kong is set on a course of inevitable decline. In many ways the economy has shown more resilience than might have been expected during such a severe China crisis, given its increasingly close economic links and the prospect of 1997. After initial angry outbursts, China has also become relatively restrained in its criticism of the massive backing in terms of demonstrations, money and propaganda which Hong Kong gave the Tiananmen Square students. As one prominent businessman put it, Hong Kong was sure to be seen by Peking as a "counter revolutionary centre".

Hong Kong's future depends, however, on China continuing to regard it primarily as a vital entrepôt and an economic window to the world. "China is not offering us one country two systems out of love for this population, but out of their own self interest – so they will want to keep Hong Kong's confidence going so that it remains of value to them," says Dame Lydia.

Now the Hong Kong government hopes that China will do more to boost confidence later this year by agreeing to controversial demands for improvements in the draft Basic Law, or mini constitution, that will govern the territory after 1997. It will also want assurances about the Chinese army not being stationed in the centre of Hong Kong. If China resists these demands, which are now being drawn up in detail, there will be a further slump in confidence and a risk of social unrest.

In political terms, the government is also attempting to boost confidence (and quell a rising tide of anti-British feeling) by calling on the UK to organise passports and a right of abode for the Hong Kong Chinese who make up 97 per cent of the 5.7m population. It is also pushing hard for international action on more than 45,000 Vietnamese boat people to whom it has given temporary refuge.

On the economy, it is continuing to draw up confidence-boosting plans for major projects, including a new airport and port, plus a cable television franchise which could lead later to a second telecommunications service.

There is a general mood of wanting to prove to the world – including China – that Hong Kong is still a stable, vibrant, and internationally-important regional centre. This mood should hold till around September or October when directions should become clearer.

That is the time when it seems most likely that talks with China could be formally resumed by Hong Kong and the UK on issues like the Basic Law. It is also the time when, after western summer vacations, companies will be looking again at postponed investment decisions both in Hong Kong and China, and when the impact on Hong Kong's tourist and other industries should emerge.

If China appears calm; if its economic liberalisation is intact; if Guangdong is back to normal; and if Peking proves conciliatory on issues like the Basic Law and stationing the army, then Hong Kong's confidence could gradually build up again. Investors and speculators will remember that there is more than time for another investment cycle before 1997 during which projects can be built up, sold and sold again – and fortunes can be made. They will repeat the often-heard comment that it is just as well the Tiananmen Square crisis hit in 1989, not in 1992-93 when there would not have been time for another investment cycle.

But it will not take much to tip confidence down again, if things go wrong, because of the enormity of the recent shocks which affected different people in different ways. Older people who left China in the first wave of immigration from Shanghai around 1949 have seen harsh persecution before and have merely had their total lack of trust in Peking, and their worst fears, confirmed.

Those who left in the 1960s and 1970s, after the cultural revolution, were perhaps prepared to give the new Chinese leadership the benefit of the doubt – but no longer. Younger people in their teens and early 20s, who had confidence about Hong Kong's post-1997 potential, have had their dreams dashed.

"Peking will not let democracy work here – two months ago I'd have said 'maybe' but not now," says Sam, an 18-year old Hong Kong Chinese student. He was one of a group discussing the future after the China crisis. "Look at Tibet and you know we won't have independence or freedom," said Anthony, a 17-year old born in China. "The People's Liberation Army will come to Hong Kong, and if it's not the army then they will send hard-line officials to interfere somehow or other."

The massive task facing Hong Kong, Peking and the UK is to overcome such fears in people of all ages so that, slowly, some of the old confidence can return and people can worry more about *fung shui* and think less about the People's Liberation Army.

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Editorial production: Diane Summers
Photography: Ashley Ashwood

KEY FACTS (1988)

British colony	reverts to Chinese sovereignty July 1 1997
Population	5.73m (97% ethnic Chinese)
Tourist arrivals	5.59m
Land area	1,070sq km
Population density	5,355 persons/sq km
Currency	HK dollar pegged at HK$7.80: US$1
GDP per capita (current prices)	HK$74,917 (14.2% growth)
Total exports	HK$493.1bn (30.4% growth), including:
Domestic exports	HK$217.7bn (11.5% growth)
Re-exports	HK$275.4bn (50.7% growth)
Total imports	HK498.8bn (32% growth)
Labour force	2.78m including:
manufacturing	837,000
wholesale, retail, export/import	521,000
finance, real estate, business services	236,000
hotels and restaurants	191,000
Seasonally adjusted unemployment rate	1.3%

Source: Hong Kong government

John Elliott talks to Sir David Wilson, governor of Hong Kong

Working with the grain of opinion

SIR DAVID WILSON, the British diplomat-turned academic who is the governor of Hong Kong, intends to push China to agree that the pace of democratic development in the colony should be speeded up.

But he does not put it so bluntly and that, according to his critics, is part of his problem. Since coming to the job in January 1987, he has often appeared bland and retiring.

Now, with Hong Kong facing serious problems in the wake of the China crisis, both Sir David and the British government are likely to be more robust – Sir David showed this recently by arguing for Hong Kong people to have British passports and by calling for action to solve the Vietnamese boat people problem.

"The Hong Kong community is still in a state of shock as a result of the events in China and it is impossible to tell quite how long that shock will last or what its effect will be," he says.

The shock was caused by the horror of the Peking army crackdown at a time when China seemed to be set on a liberalising path that would help Hong Kong.

First, there is the demand for passports. Meeting that would answer people's "search for personal security". Next, there is a need to build democracy "to give a greater sense of confidence".

"What has happened in Peking has made people much more worried than ever before about their own future and safety," Sir David says. "Most people would like to stay in Hong Kong because they like it here, but in the wake of recent events they are looking for assurances about their future in terms of a right of entry to the UK if things go badly wrong."

He refuses to comment directly on a warning issued by Dame Lydia Dunn, senior member of the Executive Council, Hong Kong's inner cabinet, that Britain would find Hong Kong difficult to administer if it refused to issue passports.

He does admit, however, that "the task of administration will be much easier if people do have assurances about their own future". The job of government had been made "harder because the events have damaged confidence".

Sir David Wilson: evolving style

The problems have also brought an "interesting sense of unity" and the "beginnings of a consensus" between liberal and conservative wings on the question of how fast Hong Kong should move towards universal franchise for the election of the legislative council and the first 1997 chief executive.

"Our interest must be to take account of the new mood in Hong Kong and to persuade the Chinese that things need to be done in and for Hong Kong to try to reassure the people," Sir David says.

He points out that Peking drafters of the Basic Law had in the past been asking for a common Hong Kong view on the pace of change and adds: "In order to help recreate confidence, I would hope the drafters would very much take into account the sort of views which are developing here."

In Sir David's cautious style, these remarks mean that his government would consider accelerating the introduction of democracy in the 1991 elections and would push China to agree to parallel changes in the draft Basic Law for later polls.

But Sir David is not showing his hand on what he calls the "slope of change". He is not prepared to say whether the British and Hong Kong governments will try to force the pace by going ahead with 1991 direct elections before knowing what Peking will put in the Basic Law for 1997 and later.

"If opinion in Hong Kong is *moving faster*, then we would want to take account of that in how we develop the system between now and 1997," he says. "But we would also want to have arrangements which were to go on after 1997 – one does not want to build up something that will not go through."

Sir David passionately rebuts suggestions that the people's new interest in political participation and democracy means that the British and Hong Kong governments were wrong to introduce only a slow pace of democratic development last year. Critics allege that the UK bowed to pressure from China.

"The philosophy we have followed is to work with the grain of opinion in Hong Kong – if things have changed we should now take account of the changes," Sir David says. "I will never admit to the thesis that we have not been robust. We choose what to say [to China] in public and what in private, in order to get across our points."

Sir David rejects suggestions that the 1997 handover of sovereignty should be cancelled. "It's a nonsense because we are constrained by history and our right of administration for most of Hong Kong ends in 1997," he says. "None of us can simply wipe out the date 1997."

To suggestions that the Sino-British Joint Declaration should be torn up, he says: "I don't think it would make sense because you would be left with nothing and the treaty itself is very good, given all the historical circumstances. What is now needed is an immense amount of effort by Hong Kong, Britain and China to make sure it works in practice and that people believe it is going to work in practice. There are no viable alternatives."

But can people trust China now? "People's confidence in China has been very badly shaken and I hope the Chinese government will take measures to try to restore that confidence – the sooner that happens the better. And if you try to stand back from our present state of shock, you can say quite correctly that China has a good reputation for keeping international agreements."

But as a Chinese scholar, has Sir David's view of the country changed? "I didn't expect such an indiscriminate degree of violence. But it doesn't totally overthrow my view of China because the element of repressiveness has always been there, and the fear of chaos has always been a strong thread going through the Chinese leadership – accelerated by the cultural revolution.

"Now they have, as seen by most of us outside China, over-reacted to the problem that they faced, but one notices this thread of the fear of confusion running through the Chinese leadership for generations."

Sir David has been outspoken about the problems of the Vietnamese boat people, and he acknowledges that the vast majority of Hong Kong's population are against admitting the would-be refugees.

If Hong Kong carried out its recent threat to end its role as a place of first asylum, "the majority of the population would want the boat people dissuaded from coming – that would be harsh because if people had nowhere else to go, you could face them sinking their boats in front of you."

Liberal sentiments such as these have little support among the population. Sir David acknowledges this creates a problem for his colonial government. "It is very difficult for any government to go on pursuing a policy which is strongly disliked by a large proportion of the population – that is one of the things we have been trying to explain to the international community."

Returning to his personal style, Sir David emphasises the need for a governor to leave room for local politicians and senior civil servants to develop their roles. But should he change his style to help boost Hong Kong's morale? "My style is one which I hope evolves to meet whatever the needs of the circumstances are," he says – which basically means he does not see why he should.

TOWARDS 1997

A new consciousness

HONG KONG has been shaken out of its political lethargy by the recent events in China. People have suddenly become concerned about the real implications of the return to Chinese sovereignty and even about some aspects of the Basic Law, or mini-constitution, which will govern Hong Kong after June 30, 1989.

In the past, there has been no tradition of political activity in Hong Kong. As a British colony, it has been administered by civil servants and a governor, with some cautiously selected senior community figures sitting on basically advisory councils – an executive council, or mini-cabinet, and a legislative council.

Indirect elections to the Legislative Council started in 1985 but there has been little real political activity. Attempts to start political parties and alliances have not gone well, partly because of a lack of political sophistication among the participants and partly because Hong Kong Chinese are more interested in making money and building personal wealth than indulging in collective activities.

There is also a serious lack of top political leadership. This became evident during the recent crisis when neither the governor, Sir David Wilson, nor the chief secretary, Sir David Ford, nor any other prominent public figure emerged to lead public opinion as several hundred thousand people took to the streets in protest against Peking.

Nevertheless, there is a new political consciousness. This means that Hong Kong will be going through a period of untidy political development in the next few years. Different personalities and factions will emerge and try to mark out claims for public leadership as the colony moves towards 1997.

The enthusiasm of many of the participants, however, will be tempered by a fear that one day after 1997 Peking might try to purge people who have spoken out against its policies and actions.

Efforts to form political parties have not succeeded so far. Mr Stephen Cheong, a member of the Legislative Council, has shelved his plans partly, he says, because the "intelligentsia and middle classes" who would form the bedrock are diverted by thoughts of immigration.

An alliance formed by Mr TS Lo, a prominent lawyer and public figure, lacks direction. A third party to represent the "middle ground" is now being mooted by Mr Jimmy McGregor, a former senior civil servant who is the industrialists' member of the Legislative Council.

Other parties could emerge led by people such as Mr Martin Lee, the prominent liberal lawyer and democracy campaigner.

But the main priority in Hong Kong now is to boost confidence. The first aim is to try to persuade the British Government to issue full UK passports in order to stem the brain drain.

The second aim will be to try to strengthen the Basic Law, the second draft of which emerged from Peking last February, so that the new Special Administrative Region of Hong Kong can maintain the "high degree of autonomy" after 1997, as promised in the 1984 Sino-British Joint Declaration.

There is no significant support for trying to change the 1997 handover date or for renegotiating the Joint Declaration. Talks in a Sino-British Joint Liaison Group, which is handling practical issues connected with 1997, have stopped because the UK has unilaterally postponed a formal meeting. The most likely provisional date for a new meeting is September or October.

Work on the final draft of the Basic Law, which Peking was to have produced in its final form by the end of the year, has also been delayed. There have been some resignations from drafting and consultative committees in Hong Kong, which has also temporarily stopped the formal consultative process.

The government and various interest groups in Hong Kong are drawing up detailed lists of points they want strengthened when consultations restart.

First, there will be a general move to speed up the introduction of universal suffrage because many conservative businessmen have begun to revise their opposition.

"With the participation of the Hong Kong people in the recent weeks' activity, there is no need to hold back democracy," says Mr Vincent Lo, convenor of the businessmen's Group of 89.

There is a consensus growing for half the Legislative Council to be directly elected in 1995, with the other 50 per cent being indirectly elected through existing special interest groups. Everyone would be directly elected by 2003, along with the region's chief executive.

This is dramatically different from earlier heavily qualified ideas which stretched to 2012.

Whether the conservative business lobby will eventually accept this remains to be seen. If the new dates do get general support, the percentage of directly elected seats in the 1991 legislative assembly elections will have to be increased by the existing Hong Kong government, possibly being doubled from 10 to 20 seats.

Other Basic Law plans include: opposing the idea of a large People's Liberation Army contingent being stationed in Hong Kong; switching the right to declare martial law from Peking to Hong Kong; strengthening human rights with a Bill of Rights to be passed by the existing Hong Kong government; and strengthening clauses connected with the independence of Hong Kong's powers to introduce and adjudicate its own laws.

Hong Kong hopes China will extend the consultative period which should end within the next few weeks.

China will also come under pressure from the UK and Hong Kong to accept all the major changes being mooted in its final draft. This could prove controversial because, up to now, China has only been prepared to listen informally and privately to the views of the UK and Hong Kong, whose governments are now likely to want to speak out more publicly.

"The drafting of the Basic Law is not only for the Chinese," says Dame Lydia Dunn, senior member of the Executive Council, illustrating a new tough line. "The promulgation of the law is for the Chinese but the British government has a responsibility and a right to make sure that the law implements the Joint Declaration.

"So the British Government must assert itself a lot more and quite openly so that the community knows the UK is standing up for its obligations."

John Elliott

Prospects for the various ethnic groups are examined here and on the next page

Foreign passports provide insurance

IN 1997 China will regain sovereignty over the landmass of Hong Kong island, Kowloon and the New Territories, plus the surrounding territorial waters. But that does not necessarily mean it has an automatic claim on the people or their wealth – the people mostly being refugees from earlier harsh Chinese regimes who have built the colony into one of the world's great economic success stories.

This twist to the 1997 changeover is being heard more often in the colony following the Chinese army crackdown: people are searching for ways to ensure that they have a bolt-hole overseas in case of trouble. The lack of trust in Chinese leaders has caused floods of people to seek the insurance of foreign passports. A significant number of companies have, for some time, also been moving their legal domicile while continuing to work in Hong Kong.

HONG KONG'S POPULATION

Chinese (eligible for BDTC passports)	3.24m
Chinese (Hong Kong Certificate of Identity)	2.32m
Indians and Eurasians	17,000-20,000
Gweilos – white expatriates	60,000 est.
Other expatriates:	
Thais	12,000
Malays	11,000
Japanese	11,000
Portuguese	8,000
Filipinos	50,000
Total Population	5.73m
plus Vietnamese boat people	45,000-50,000

However, it is impractical to believe that all the 5.7m population can – or would even wish – to leave. There is no chance, therefore, of China inheriting only a concrete jungle version of the "barren island" as Hong Kong was characterised by Lord Palmerston more than 150 years ago when the British arrived.

That is why a major controversy has built up over whether Britain should issue full passports to some or all of the Chinese who make up more than 97 per cent of the population, plus about 11,500 Indians and Eurasians. (The other minorities of Filipino maids, Vietnamese boat people, and other foreigners total only about 200,000 and have their own countries' passports).

The issue has been sharpened by Portugal making European Community passports available to 90,000-130,000 Chinese people *in its* enclave of Macao, 40 miles from Hong Kong, which returns to China in 1999.

The Hong Kong passport problem stems from a series of British immigration laws introduced since 1962 which have whittled down the rights of people from the British Commonwealth to settle in the UK.

There are 3.24m Chinese people who have a right to what is called a British Dependent Territories *Citizens' passport – although* about only 1m have been issued. Most are entitled to their passport by reason of birth in Hong Kong, though there are some naturalised people as well. To mark the 1997 changeover, these passports are now being replaced, with China's agreement, by travel documents called British National (Overseas) passports.

People are trying to ensure that they have a bolt-hole

The other 2.32m Chinese are immigrants from China who have not applied for naturalisation. Some came legally, some illegally, but they are now officially settled in Hong Kong and travel on a Certificate of Identification which, to the rest of the world, means they are of uncertain identity unless they have kept Chinese passports.

Neither group has a right of abode in the UK. After 1997 they will not have British consular protection because, under China's laws, having been born in China or Hong Kong, they are ethnic Chinese and are, therefore, Chinese nationals. In these circumstances, the various *passports and identification* papers are only travel documents and nothing more.

That is why there is an accelerating brain drain of people going abroad to gain a foreign passport. Ideally, the 3.24m would like to be entitled to a British passport because that would provide British consular protection at a time of crisis. They would also be able to leave Hong Kong without any problem and live, even if only temporarily, in the UK while they organise a new life. Hong Kong wants the UK to encourage Commonwealth and other foreign countries to give similar facilities, including a right of abode, to the other 2.32m.

A British passport would give people the confidence to continue living in Hong Kong until the time of any crisis. *Otherwise*, they have to seek one in countries such as Australia, Canada or the US.

John Elliott

Lucy Kellaway looks at the brain drain

Flow of resignations

THIS YEAR'S favourite theme for Cantonese soap opera concerns a young family divided. The mother and children have emigrated to Canada, the father remains in Hong Kong to make a few more dollars before joining them. One or other side meets someone else. Can the family stay together?

This is the light side to the *"brain drain". The heavier side* touches every aspect of Hong Kong life: from the long struggle for a passport, the angst of leaving home for a worse lifestyle elsewhere, to the despair of those who find no other country will take them.

Since the massacre of students in China, the rush of Hong Kong people to get a foreign passport has increased dramatically and, with it, bitterness about the British refusal to give full passports to 3.2m subjects.

The foreign consulates in Hong Kong have been besieged with applications: earlier this year the Australian consulate was receiving 80 enquiries a day; at the height of the tension that number touched 1,700. Despite the greater numbers wanting foreign passports, the numbers leaving may not increase very quickly.

The official government estimate – carried out before the latest unrest in China – is that the exodus would stabilise at 42,000 people a year, down from 45,000 last year. The forecast has now been increased to 50,000 for next year, although it could be closer to 60,000.

The outcome depends on the attitude of the receiving countries, and the three most important – the US, Canada and Australia – are either close to quotas already.

The lucky ones are those *with close relations abroad*, with a lot of money, or in professions that are in demand. However, as the numbers increased, so these professional categories have been tightened. Last year there was a rush of top secretaries to Canada, mostly young women with children whose futures they wished to protect. Canada, now replete with Chinese-speaking secretaries, gives higher priority to librarians and psychologists.

The raising of standards and the length of the queue – anything from 3 months to 10 years and getting longer all the time – has forced potential emigrants to look to other countries. So far, Singapore has proved the most popular. Although it has a brain drain of its own, the language and culture are sympathetic and visas are available to anyone with tertiary education. Other countries, such as New Zealand and even Belize and Mauritius, are also seeing a sharp increase in the number of applicants.

The brain drain is imposing heavy economic and social strains on Hong Kong. All employers are having to cope with a steady flow of resignations among young professionals, and the larger ones are devising new ways of keeping them.

For international companies *the problem is perhaps easiest*: many are rotating their employees through foreign offices, while some of the French banks are promising French passports in order to keep their Hong Kong-based staff. Others are forced to fill vacancies with foreigners. "The brain drain has spoilt our policy of trying to appoint local people into top positions," says Mr George Cardona of Hongkong Bank.

Emigration is also draining the country of its entrepreneurs. Both Canada and Australia are willing to grant visas to businessmen with capital of about Aus$650,000 (£318,000) and in the past year more than 5,000 rich locals have left.

There are some signs that emigrants, having obtained their passports, are coming back. Anecdotal evidence suggests, however, that most of these people plan to stay briefly in order to make some more money before returning overseas.

CHINESE

Working hard, making money

AS A visitor flies into Hong Kong's Kai Tak airport, the plane swings past gigantic estates of white tower blocks of flats, then levels off above slum tenements of Kowloon before skimming across squalid roof-tops and landing on one of the world's most crowded runways.

The impression gleaned through the plane windows is of masses of poor people huddled together in almost inhumanly overcrowded and poverty-stricken conditions. This is mistaken. There are, of course, the appalling slums of Kowloon's Walled City, soon to be demolished, and there is some poverty in numerous shanty towns and back streets.

But those awe-inspiring blocks of flats are mostly populated by relatively well-off people, including some Chuppies – as the local version of Yuppies are called. Most live in cramped flats of only 200-400 square feet, but 43 per cent of the population is in government-owned accommodation where there is a rent ceiling of 15 per cent of household income.

A significant number have money to spare to eat out and even to have holidays in China, Thailand or the Philippines, plus enough, perhaps, to educate their children abroad.

These people make up a large part of prosperous Hong Kong's hard-working Chinese population of 5.5m. Most of them, or their families, were originally refugees from China: a series of immigration waves started in 1949 and there was further immigration in the early 1960s and the 1970s until entry rules were tightened in 1981.

Like all migrant populations, their ethic is to work hard and make money, irrespective of discomfort. Hong Kong's average per capita income is US$9,600 – Asia's second highest after Japan.

Even some of the old men and women seen hobbling round the streets in baggy trousers and shawls are successful speculators on the local stock or property markets. Government salaries are good enough for a married couple, both working, to have been known to save sufficient (possibly with the help of their families) to pay the £150,000 needed to obtain a right of abode in the UK.

The vast proportion of people are well enough off and sufficiently enterprising to make their own way – wherever they might end up if 1997 were to prove unbearable. This does not mean, however, that they can all manage to go abroad to find foreign passports, even if they all wanted to and even if the foreign countries would take them.

At the top end of the population are massively rich tycoons like Mr Li Ka-shing and Sir YK Pao. Along with many more, they have world-wide interests which they are expanding, and they could instantly arrange to live wherever they wanted in time of crisis.

There are also a few thousand specially-privileged senior civil servants who have been issued secret code numbers by the Hong Kong government. They would be guaranteed instant admission and right of abode in the UK if they had to leave. These people have pledged that they will work in Hong Kong until the end of their careers, or until there is any trouble.

For example, police and other security officers who have handled sensitive cases, especially during riots in the 1960s, could easily find themselves targets for revenge after 1997, as could many others.

These controversial special arrangements for government employees underline the one fact that unites all the Chinese in Hong Kong: none of them trusts Peking and they have no confidence about what will happen after 1997.

John Elliott

INDIANS

Traders in a trading centre

SIKH HOTEL doormen with black and white turbans and black boots; scruffier Sikhs lounging against bank doors clutching ancient rifles – these are the instantly visible signs of one of Hong Kong's smaller ethnic communities, the Indians and Pakistanis.

Inside the hotels, banks and office buildings of the Central financial district there are rich Indian traders with names like Rutonjee, Murjani, Harilela and Chellorams. Across the harbour in Kowloon are hordes of small bazaar stalls and restaurants plus myriads of tailors.

All these people face uncertainty after 1997 because, unlike the Hong Kong Chinese, they do not have an option to take Chinese citizenship - *although they can stay as residents like anyone else*. Some have the limited British Dependent Territories Citizens' passport, while others still have Indian nationality.

"The big families will want to stay because this is a trading centre and we are traders," says Mr Hari Harilela, president of the Council of Hong Kong's Indian Associations. "The poorer ones with their bazaar stalls will stay till they lose money, then maybe go back to India. But those who want British passports do not necessarily want to live permanently in the UK – they would far prefer to go to the US or Canada." The rich could also qualify, as non-resident Indians, for a right of abode in India by investing there.

Mr Harilela estimates that in Hong Kong there are about 16,000 Indians and Pakistanis – the distinction between the two nationalities is blurred because many families arrived long before the 1947 partition of India.

The majority are part of the internationally-known Hindu trading community of Sindhis who come from a desert area north of Karachi and west of Bombay adjacent to the Indian state of Rajasthan. In Hong Kong their business tactics are often criticised and disliked by the Chinese.

Of the total, about 10,000 (8,000 Indians and 2,000 Pakistanis) are thought to have *Indian passports, so could go* back to India. The group which is causing more concern, and which has been pushing for special British passport treatment, is made up of the remaining 6,500 who qualify for British Dependent Territories Citizens passports.

Mr Harilela's association is lobbying for a total of about 11,000 people which includes this 6,500 plus 2,000 Portugese and Mecanese and 2,500 Eurasians, Indonesians, Malaysians and other similar small minorities. All have the BTDC passport problem and resent the fact that they are not being better looked after.

John Elliott

GWEILOS

Brain drain benefits the foreign devils

IT IS one of the ironies of the countdown to the end of British colonial rule in Hong Kong that the size of the expatriate community here is on the increase. There has been an influx of new arrivals to fill the vacuum created by the brain drain within the local Chinese professional classes.

White expatriates are known locally as gweilos, literally foreign devils. The term is used for all non-Chinese foreigners that has been adopted by Europeans as their own label. Most are from Britain, North America or Australia, with smaller numbers from continental Europe, New Zealand and South Africa – all of whom, of course, have passports for their home countries.

Official Hong Kong immigration department statistics for the various communities are difficult to interpret: even though most Chinese families return on their Hong Kong passports, some can use their new travel documents when entering the territory.

The Canadian consulate has made a rough guess that there could be around 30,000 Canadian passport holders in the colony, mostly people originally from Hong Kong. The Hong Kong immigration department lists 10,800 Canadians, but even this number could include many local Chinese as well as Canadian expatriates.

The same sort of problem applies to the 10,400 figure for Australians, while the 8,500 Portuguese are likely to almost all be locals born in Macao who have taken the opportunity to get Portuguese citizenship.

The United States provides the biggest single community, numbering 18,100 at present, in a testimony to their powerful business presence in Hong Kong. This number, however, also includes many locals with newly-acquired American citizenship.

The British presence is listed as 14,700 strong, well down from 19,000 five years ago, partly because of lower numbers in the civil service and the police as a result of Hong Kong Chinese progressively taking over public sector jobs. The 2,100 British soldiers who man the territory's garrison are counted separately. Other communities include the Japanese, Thais and Malays, with around 10,000-11,000 each.

People are reluctant to give up the lifestyle, with its clubs, yachting and junk trips, luxury flats and swimming pools, and active social circuit

Because they already have other passports the gweilos can afford to adopt a wait and see attitude towards 1997, unlike the locals. In the meantime, they are reluctant to give up the Hong Kong lifestyle, with its clubs, weekend yachting and junk trips, luxury flats and swimming pools, and active social circuit.

The majority are on contract terms, serving as middle and senior level executives in the financial sector and numerous trading companies, law and accountancy firms. Many work for multinationals which will eventually post them elsewhere. Young gweilos in their 20s are concentrated in the stockbroking sector – they come for a few years of high living and useful work experience.

In addition to these short-term people there is also a solid core of long-term residents, many of whom have spent most of their lives in Hong Kong and regard it as home, even though most will retire elsewhere to places like Spain and Portugal.

For the long-term residents there is naturally some concern about the future, particularly among civil servants whose career prospects have been dimmed by the localisation policy. However, according to Mr Duncan McInness, president of the Association of Expatriate Civil Servants, the government – which pays high salaries compared to the UK, is still recruiting staff from overseas to offset the brain drain.

So, providing the brain drain continues and the economy remains buoyant, and assuming there is no upsurge in anti-European sentiment during the run-up to the handover to China, Hong Kong's expatriate community is likely to remain in place and even grow.

Michael Marray

The boat people mostly live in a mixture of cramped open camps and tough detention centres

BOAT PEOPLE

Group with the most precarious future

THE NUMBER of Vietnamese boat people in Hong Kong is now slightly more than the total number of Filipino maids – around 45,000-50,000 – making them Hong Kong's largest single ethnic group after the Chinese.

But, unlike the Filipinos, who are willingly and legally imported by employers, the boat people are unwelcome residents who are resented by the Chinese population.

China has said all the boat people must leave by 1997 – presumably either by being repatriated to Vietnam or resettled in the West. Officials have said privately that those left will be thrown out. So, of all Hong Kong's ethnic groups, these people have, perhaps, the most precarious future.

They mostly live in a mixture of cramped open camps and tough detention centres. Recently, a heavy flood of new arrivals meant that Hong Kong ran out of covered accommodation and housed newcomers in the open air.

The first ones arrived in May 1975 in a batch of 3,700. This built up slowly to a total of 66,000 in the first seven months of 1979 when Hong Kong was dubbed a country of first asylum. Under local pressure, Hong Kong decided in 1982 to put them in closed camps.

It further tightened its policy in June 1988 when it said that all new arrivals would no longer be accepted automatically as refugees deserving resettlement in the West. Instead, it would regard them as economic migrants and, therefore, illegal immigrants who would qualify for repatriation to Vietnam unless they proved in a screening process that they were genuine political refugees. The move was intended to deter new arrivals, but it failed because over 30,000 have arrived since last June. This number is twice the total of just over 14,000 recognised refugees who arrived before June last year and are still in the colony.

About only 10 per cent of those so far screened have proved themselves to be genuine political refugees but attempts at voluntary repatriation for the rest have made only a slow start.

Following a recent international conference in Geneva, Hong Kong wants to repatriate all those now dubbed illegal immigrants, voluntarily or forcibly, to Vietnam. The rest would be resettled in the West.

Originally, the boat people were fleeing from a war-torn and poverty-stricken country with a harsh Communist regime. The situation in Vietnam is changing and there is less international sympathy. In Hong Kong there is particular resented because the boat people are taken in and housed by the government. Meanwhile, illegal immigrants from China – who often have local connections – are immediately repatriated.

China has said all the boat people must leave by 1997

John Elliott

The scene on a Sunday is more reminiscent of downtown Manila than Hong Kong

FILIPINOS

Graduate maids teach the children English

EACH SUNDAY Hong Kong's Central financial district plays host to an outdoor gathering, with roads closed to traffic and thousands of people sitting out on the pavements picnicking, listening to music and chatting.

But the language to be heard is Tagalog and not Cantonese, and the scene is more reminiscent of downtown Manila than Hong Kong, as a good proportion of the colony's 45,000 Filipina maids enjoy their day off after a week of washing, cooking and looking after the children of Hong Kong's rich.

At the start of the decade there were only a few thousand Filipina domestics, most of whom speak fluent English, in the territory. This had surged to 31,000 by 1986 and is now heading towards the 50,000 mark, with the 5,000 new recruits each year reflecting Hong Kong's booming economy and increasing affluence.

'Filipinos have always gone abroad to work – there is a long history of migration'

"Filipinos have always gone abroad to work – there is a long history of migration," said Miss Elizabeth Buensuceso, consul at the Philippine Consulate General in Hong Kong. She points to large numbers in the Middle East and Europe – in particular Italy – as well as around south-east Asia.

According to Miss Buensuceso, about 90 per cent of the employers in Hong Kong are Chinese: they see the teaching of English to their children as an important task in addition to the normal household chores. However, the local Chinese population does not always make the Filipinas feel very welcome, and the post-1997 future of the community will depend partly upon the immigration policy of the first special administrative region government, which might one day consider giving preference to people from China itself, especially from Guangdong province.

At present, about 70 per cent of all maids are brought in via specialist placement agencies, and are paid a lump sum by the Filipinas themselves. Contracts are valid for two years, with a minimum monthly wage of HK$2,500, return airfare, one day off per week plus a number of statutory holidays. This compares to wages of only 2,000 to 3,000 pesos (or HK$720-1,080) per month back in the Philippines in occupations such as teaching. This explains why many Filipina maids working in Hong Kong are well qualified and include some graduates.

Many maids stay in Hong Kong far longer than two years, either by renewing their contract with the same employer or transfering to another when their contract expires. However, they are still required to obtain a fresh visa stamp in their passports every six months.

These temporary workers have become a permanent fixture in Hong Kong and, as long as the economy continues to grow, more Filipinas are likely to continue arriving – domestic help has become an accepted part of the lifestyle of the wealthy.

Michael Marray

On this page, **John Elliott** and **Michael Marray** profile the leading candidates for the job of chief executive in 1997

The search for a colossus

ON JULY 1 1997 the British governor of Hong Kong will be replaced by a chief executive. This top official in the new Special Administrative Region will have the primary responsibility for conducting relations with Peking and, along with a legislative council, for ensuring that the new region enjoys the "high degree of autonomy" laid down in the 1984 Sino-British Joint Declaration.

A common pattern is for leading politicians and administrators to emerge as a country approaches the end of colonial rule. Hong Kong, however, is not achieving independence; significant political leaders have yet to develop and there is a vacuum at the top.

This state of affairs is partly because the UK and Hong Kong governments have done little to encourage the development of democracy (although this is now changing) and, in the past, have even slowed the process down in accordance with China's wishes.

With 1997 looming, few people have wanted to adopt a high-profile political role and risk conflict with Peking.

The second draft of the Basic Law says that the chief executive "shall be a Chinese citizen of no less than 40 years of age who is a permanent resident of the region and has ordinarily resided in Hong Kong for a continuous period of 20 years". The person must be one of "integrity, dedicated to his/her duties".

The draft law says that the job will include: leading the government; signing and implementing legislation; deciding government policies; issuing executive orders; appointing and dismissing public officials; handling external relations; and deciding on criminal pardons.

How the first chief executive will be chosen is still a matter of intense political debate. Liberal campaigners want election by universal suffrage to underpin the independence of the post from Peking.

Till the Chinese army crackdown, the majority view in Hong Kong accepted a Peking-influenced electoral college to choose the first one or two incumbents. The idea was to ensure that they were acceptable to the Chinese government and so would not cause unnecessary and destabilising friction.

This view has now changed and the importance of primary acceptability to the Hong Kong people is being stressed, with full direct elections starting not later than 2003.

There are no ideal candidates yet in line for the job.

The person must be clearly acceptable to the Hong Kong people and, following the recent Chinese crisis, must not have any divided loyalties with Peking. At the same time, however, he or she must be acceptable to Peking. How this potentially wide gulf can be straddled is not yet clear.

The profiles here cover some of the people currently most often talked about. They are all involved in Hong Kong's political development and will almost certainly still be around in 1997. Other candidates, including senior civil servants, will emerge later.

Some current leaders, notably Dame Lydia Dunn, senior member of the Executive Council, are excluded because they are identified too closely, either personally or professionally, with the British.

John Chan

JOHN CHAN, or Chan Cho-chak, is one of Hong Kong's highest-flying senior civil servants and would have been a strong candidate for the chief secretary's job if British rule had continued. He could yet take over the job from Sir David Ford, the present incumbent, before 1997.

Mr Chan, aged 46, has recently become secretary for trade and industry, a posting designed to broaden his experience after two years as deputy chief secretary where he was closely involved in designing Hong Kong's slow moves towards democracy.

At least up until the time of the Tiananmen Square massacre, he firmly believed in co-operating with China and said that the first chief executive had to be acceptable to Peking's leaders.

"The more comfortable they feel, the less likely they are to interfere and the better it is for Hong Kong," he says. After the army crackdown he qualified this by saying that the person "must first be acceptable to and have the support of the people of Hong Kong – only then can there be confidence in his dealings with China".

A short rotund pipe-smoker, Mr Chan is an ambitious and cautious man who checks the background of people he meets and says no more than is absolutely necessary. "I may not be interested in such a difficult job. I am not sure I would feel confident enough," he says.

Mr Chan's close involvement in running Hong Kong under the British could be a disadvantage. But he has, at least until the past few weeks, been carefully cultivating his links with the mainland. At present he is a front runner if China wants a bureaucrat to fill the job.

Martin Lee

MR MARTIN LEE, or Lee Chu-Ming, made his name as one of the most sought-after barristers in Hong Kong after graduating from the University of Hong Kong.

Now a Queen's Counsel, the 51-year-old Mr Lee spends as much time on politics as law from his platform as the elected representative of the legal community in the Legislative Council. He is also chairman of the Consumer Council.

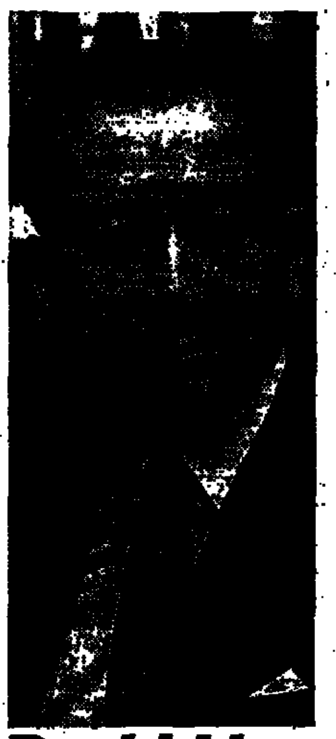
His barrister image has, in the past, given him less grass roots appeal than some of his liberal colleagues in the Council. He has irritated the colony's establishment with his sometimes extreme views and prickly manner, and a tendency to be an instant spokesman on everything. But the recent turmoil in China has swept him along on a wave of popular support.

Long before recent events in Peking, Mr Lee was supporting the building up of democratic systems in Hong Kong to stop China interfering after 1997. He has argued that universal suffrage in Hong Kong, by that date, is the only way to achieve this, and stresses the chief executive must unhesitatingly put Hong Kong first in any conflict of interest with Peking, rather than try to balance between the two.

"I have been keen on one thing – to give the people a democratic structure, so whoever is in power can be removed by the system," he says. The personality of the chief executive would then become of secondary importance.

Mr Lee would almost certainly win a popular vote tomorrow. However, if keeping Peking happy is the name of the game, he would find himself some way down any list of likely candidates.

David Li



DAVID LI, or Li Kwok-Po, head of the Bank of East Asia, is a 50-year-old Cambridge-educated banker from one of Hong Kong's oldest and best-known families.

Mr Li has combined the unlikely twin roles of major player in the business community and vocal critic of the government. This is illustrated by his repeated calls for an adjustment to Hong Kong's currency link to the US dollar.

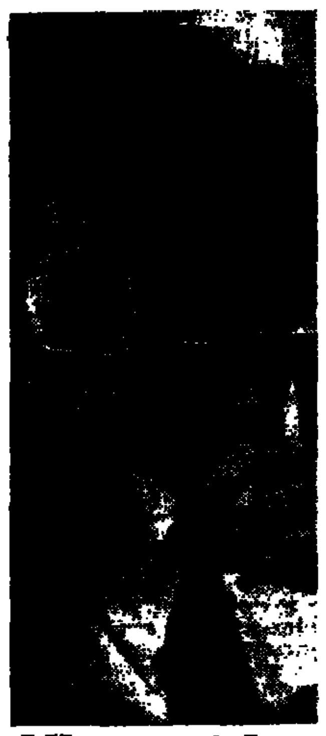
His natural outspokenness even extended as far as his own family when he criticised his uncle, Mr Ronald Li, for the way he ran the Hong Kong Stock Exchange. This was well before the 1987 world market crash brought allegations of corruption out into the open.

"Although we haven't got a democratic government they at least listen to the people," he says of the current British administration. Mr Li wants an early move towards greater democracy in Hong Kong, though he sees the lack of a political tradition, and consequent lack of potential home-grown political leadership, as a problem which has yet to be overcome.

Mr Li is often tipped as a likely post-1997 chief executive, especially given his cordial links with China built up as a result of the Bank of East Asia's heavy involvement across the border.

Does he see himself as a candidate? "I'm more interested in running the bank," comes the reply. However, the London-born Mr Li adds that he has no intention of leaving Hong Kong. Despite an easy affinity with British people, Mr li is also seen by Hong Kong Chinese as a representative of the local community, and between now and 1997 his outspokenness is sure to keep him in the limelight.

Vincent Lo



VINCENT LO, or Lo Hong Sui, is one of Hong Kong's most successful new generation of entrepreneurs. One of four sons of YS Lo who came to Hong Kong from Guangdong in the 1930s and founded the Great Eagle property empire, Mr Lo runs Shui On, one of the fastest-growing property and construction groups.

Mr Lo hit the headlines late last year when he sold his Shui On office centre for a record HK$2.5bn to a buyer with mainland China backing. The buyer defaulted and the deal collapsed, but not before it had dramatically boosted Hong Kong's property and stock markets.

A smartly-dressed 41-year-old, Mr Lo has emerged on the political scene as convener of the Group of 89, a right-wing businessman's lobby with strong Peking links. Formed to influence the debate on the Basic Law, this group has opposed rapid democratic development, but is now changing its line.

"We were very impressed by Hong Kong people's participation in the recent demonstrations. If they are prepared to be involved we don't mind faster development of democracy," he says. But Hong Kong must ensure that Peking continues to see it as a useful economic and financial window on the world, not just as a centre of hostile demonstrations.

Highly thought of by top Hong Kong government officials, Mr Lo has strong mainland business and other connections. Now he is learning about the world of politics. Other similar people could well emerge in the next few years but, at present, he is a prominent candidate to be the chief executive, even if he is rather young for 1997.

Allen Lee

ALLEN LEE, or Lee Peng Fei, is the relaxed 49-year-old businessman who last year became the senior member of the Legislative Council. He runs a successful electronics company which has a minority stake in a Guangdong plant and, until recently, was chairman of Hong Kong's Broadcasting Authority.

Widely respected for his balanced views, he has sometimes seemed excessively pragmatic – a stance he is now changing following the Tiannanmen Square massacre.

"It is too early to say whether we should try to change the 1997 hand-over date – but I would not totally rule it out. In the Basic Law we must build in provisions to reflect clearly that it is to be one country and two quite different systems and that any interference by China is entirely unacceptable," he says.

Mr Lee now believes the first two chief executives should be indirectly elected, provided the electoral college is democratic, not rigged by Peking. "The chief executive must command the Hong Kong people's respect and Peking must accept that. Of course, it is better if the person is acceptable to Peking, but even if he is not, he should still have the job and it is then his responsibility to establish a working relationship with Peking."

Mr Lee is the man with most going for him as a chief executive candidate – unless his close involvement with the present British-based administration counts against him. His easy manner, business and political experience, and the public exposure of his present position, provide him with an ideal springboard. In the current crisis he has a unique chance to develop his public charisma and to demonstrate political drive and the necessary administrative ability.

TS Lo

TS LO, or Lo Tak Shing, is a 54-year-old Oxford-educated solicitor and a well-known public figure. He comes from one of Hong Kong's most aristocratic families, with a tradition of serving the British. His father received a knighthood.

But Mr Lo broke ranks in 1985 when he resigned from the Executive and Legislative Councils after the UK refused to give Hong Kong people passports and a right of abode. "I was no longer prepared to be part of councils which propped up such a colonial regime," he says.

To underline the point, he set up a non-profit making company called Hongkong Freedom of Movement and Right of Abode to advise people on how to emigrate and obtain foreign passports.

A few months ago Mr Lo formed one of Hong Kong first political parties, the New Hong Kong Alliance. It is intended to emerge slowly by 1997 as a common front, but suffers from a lack of direction.

He doubts whether it is possible to have a democracy within a non-democratic China. But he insists that Hong Kong must work with Peking which, at least till a few weeks ago, he trusted. "We can do nothing against China unless you want a revolution. So we must keep cool and realise we are part of China."

Mr Lo gives the impression of being a man who once believed strongly in change, maybe even revolutionary change, but who has grown fatalistic and disillusioned by experience.

He has cultivated good contacts inside China, but his current lack of drive must make him only an outside runner for the job – unless he is intentionally lying low to stay on the right side of Peking.

Lucy Kellaway examines economic prospects

The spring is tested

HONG KONG'S economy is one of the most flexible in the world. An almost complete absence of government interference, wages that go down as well as up, a phenomenally active class of local entrepreneurs, and an open door to foreign investors have enabled the economy to bounce back quickly from each successive shock.

Optimists argue that the economy will weather the crisis in China in the same way: investment returns will rise until the money comes pouring in again. However, this time the process of adjustment may be more difficult than before, and what was billed to be a slow-down in growth this year to about 7 per cent, from over 13 per cent last year, might turn into something closer to 5 per cent – which for Hong Kong almost resembles recession.

The economy has become vitally dependent on China in the last few years: 30 per cent of its exports go there, and 80 per cent of its booming re-export trade relates to goods going to or from China. Hong Kong supplies two-thirds of China's overseas investments, and China, in turn, is the biggest overseas investor in Hong Kong.

Some 2m people in Guangdong province are employed by Hong Kong firms, which have set up manufacturing operations there to take advantage of an unlimited pool of labour willing to work for 75 per cent less than the going rate.

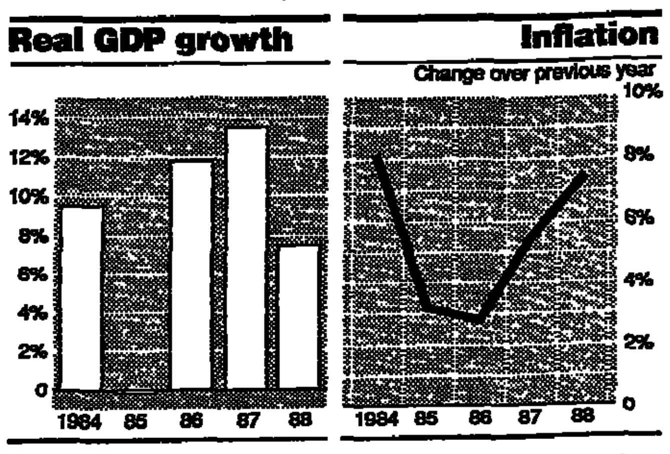
The game plan was that Hong Kong would become a vast service centre for the Chinese mainland, supplying all the technical, financial, professional know-how, as well as the trade infrastructure. Most economists believe that the plan still holds good in the long term, but in the short term there is likely to be a pause while all investment plans, both in Hong Kong and in China itself, are re-assessed.

In addition, there is likely to be a slowing of trade with China and, on some recent estimates, the government forecast of 35 per cent re-export growth this year is too high by a factor of three.

For the time being, though, the manufacturing operations in Guangdong Province seem to be operating much as usual but, should things start getting sticky, there is scope for manufacturers to source elsewhere.

In a purely economic sense, all this might be seen as a blessing to Hong Kong, which, on the basis of exploding business with the mainland, has grown by over 30 per cent in the past three years, and was beginning to show alarming signs of overheating. Inflation in the economy was running at an annual rate of over 10 per cent before the trouble in China started – making the official forecast of 8.5 per cent for the full year look rather optimistic.

Real GDP growth | **Inflation**



The chief pressure points were rents, which had gone up by 70 per cent in the last 12 months alone, and wages. In the last three years real wages have risen by some 25 per cent, and this year, faced with a chronic labour shortage and unemployment of just 1.3 per cent, wage agreements in many sectors this year have reached 15 per cent or more.

There are already signs that the economy has shifted down a gear, and events in China should hasten the process. While they are not likely to have any immediate or direct impact on domestic inflation, they should act as the trigger for a long-overdue fall in the property market.

The most visible sign of a slow down is in relation to exports, which have been the main engine of growth. In the first quarter exports increased by a mere 6 per cent – compared with 11 per cent in the first quarter of last year – while re-exports, which last year grew at an astounding 50 per cent, have slackened to 35 per cent.

The reduction is mainly due to a reduction of trade with the US, as it fights with its imposing trade deficit. Moreover, the recent rise in the US dollar, against which the Hong Kong dollar is pegged, will also help slow things down a bit, by making Hong Kong's goods less competitive.

Although protectionist measures have left the headlines, their threat has not receded. Even though the Textile Bill has once again failed to makes its way through congress, there are signs of guerilla warfare by the textiles lobby, which, according to Mr John Chan, the trade secretary, could prove equally harmful.

Perhaps more serious are the EC dumping charges on video cassettes, which Mr Chan warns could price Hong Kong out of the market altogether.

The pace of productivity improvements is also slackening. Over the past three years productivity growth has improved at an average of 7-8 per cent a year, as the economy has moved from low to high productivity industries, made labour saving investment and shifted employees over the border. However, gains cannot go on being made at that kind of rate, and about 4 per cent productivity growth this year is about the most that can be hoped for.

With a view to keeping the lid on inflation, the government has pursued a tight fiscal policy, which, as the economy has gone on growing, has turned progressively tighter. Indeed, a fiscal surplus, initially expected to be about HK$5.6bn last year, has turned out to be closer to HK$16bn.

This year's budget looks equally cautious. Increases in expenditure are marginal, and a 0.5 percentage point cut in business and personal tax rates merely takes them back to where they were before the government's finances were rudely shoved into deficit by recession in the mid-1980s. In order to curb such chronic volatility of its revenues in the future, the government is planning to replace part of the income tax burden with a sales tax.

Amid all the uncertainty in the colony, at least one thing has become more certain over the past few weeks: the Hong Kong currency looks set to stay pegged to the US dollar.

Many economists had argued that the dollar link camouflaged inefficiencies in the economy by keeping the currency at artificially-low levels, thus increasing inflation further. Others argued that the dollar should be replaced by a basket of currencies, including the Chinese RMB, to reflect the shift in trade away from the US - which now accounts for less than 30 per cent of total exports, compared to almost half in 1985.

However, the fact that the Hong Kong dollar remained rock steady a month ago, while stock prices tumbled and investors took fright, is seen by the government as the final justification for keeping the link intact.

LABOUR

Shortage puts strain on the economy

THE FLIP side of Hong Kong's economic success is a desperate shortage of labour. The mighty Hongkong Bank has 750 permanently unfilled vacancies, while other companies in every sector from services to manufacturing to construction have similar tales to tell.

A recent report by a group of employers federations put the total number of vacancies at about 200,000 and rising; government statisticians reckon the number is half that but, on either estimate, the problem is acute.

There is less agreement on the appropriate remedy. The employers argue that the only solution is to admit large numbers of migrant workers but the government refuses to allow this. It argues that since Hong Kong has no minimum wage and an incomplete social security system, the social costs of letting in migrant workers would be unacceptably high. Furthermore, the colony's housing and infrastructure are already stretched to the limit by the existing 5.5m inhabitants.

As an interim measure, however, it has agreed to take 3,000 "skilled" workers – defined rather loosely to admit artisans of almost any sort – to help meet some of the 16,000 shortfall of skilled labour. However, the plan, which is due to come into effect this month, now looks a little uncertain. The original idea was that most of the workers would come from China, but since the normal bureaucratic channels in China may now be blocked, employers could find themselves looking elsewhere.

The shortage has been putting a serious strain on the economy. As unemployment in the colony has fallen steadily to just over 1 per cent, wage rises over the last three years have grown at twice the rate of inflation. According to Mr Martin Barrow, the chairman of the employers' federation, the effect of higher wages will be "a faltering economy and deteriorating standards, which will benefit nobody, least of all Hong Kong's workers".

If the recent events in China lead to a marked economic slow-down, some of the pressure will be taken off the labour market. The long-term structural problem, however, will not be solved.

According to the government, companies need to make investments in saving labour. Indeed, certain industries have already been forced to mechanise – the Hongkong Bank, for example, has been busily replacing tellers with cash machines.

There is widespread evidence of a general improvement in efficiency, though change is a piecemeal process, particularly for the family-owned groups, which dominate Hong Kong's economy, employing fewer than 200 people.

Lucy Kellaway

A number of companies are shifting domicile

Offshore move speeds up

WHEN CHINA takes over Hong Kong in 1997 it may find that the thriving business zone is strangely devoid of company headquarters.

In the first few months of the year, nearly two dozen companies announced plans to move domicile to Bermuda or the Cayman Islands. As prospects after 1997 become increasingly doubtful, the flow is bound to increase.

For the corporate refugee – unlike the personal refugee – the business of getting post-1997 insurance is relatively easy. There are no queues, no quotas and, above all, no need to move much more than a token manager and a secretary to the new place of abode.

For just HK$2m in merchant bankers' fees, a company can complete an elaborate restructuring, creating a whole family of interlinked offshore companies, each owning different parts of the business.

Unfortunately, the protection offered is far from complete. The mere presence of a brass plaque on a door in the Cayman Islands is never going to stop a hostile Chinese Government from nationalising assets based in Hong Kong, but it should safeguard all the international assets. Indeed, for many companies with assets tied to Hong Kong, there may be little point in moving.

The Swire Group, for one, is planning to stay put. "I quite understand that it makes sense for companies with international assets to move, but for companies with Hong Kong assets, the question of domicile is not meaningful," says Mr David Gledhill, chairman.

The issue is politically sensitive since Hong Kong companies do not wish to be seen to be shaking confidence in the colony's future. Since the storm of outrage that greeted Jardine Matheson's tactlessly-timed move to Bermuda in 1984, most of the companies that have followed Jardine have explained their decision as a largely fiscal one.

These arguments seem thin: Hong Kong has one of the most lenient tax regimes in the world, a lax regulatory system, and all the accounting, legal and banking infrastructure that any company could want.

"It is not a matter of saving tax by moving, but the major issue is whether the move may actually create a tax liability," says Mr Roderick Houng-Lee, of Price Waterhouse.

Until recently, companies could have claimed – with some plausibility – that they were moving offshore so as to be able to buy in their own shares, a privilege not allowed in the colony.

Earlier this month, the stock exchange moved to block the loophole, to stop potential abuse. This is not likely to stem the flow offshore because, of all the companies that have moved, only one – Hong Kong Land – has taken advantage of the provision. Its share buy-back was more a technical consequence of the move rather than the reason for it.

For fear of causing further upset, other major companies may feel constrained from following. "The really big ones, like the Hongkong Bank, will have to stay, but all the medium and small companies will gradually do it," says Mr Stephen Clark, director of Anglo Chinese, a merchant bank which has supervised at least six departures this year.

He argues that the recent rush offshore demonstrates a "me-too mentality" common in Hong Kong's boardrooms, which is being fanned by genuine concern about China's future intentions.

Meanwhile, shareholders' response to a decision to move is a little equivocal. While most companies have found their plans unanimously approved by shareholders, so far there has been no noticeable effect on share prices.

Perhaps the market thinks that an insurance policy is not really necessary. More likely, though, it simply cannot see beyond next week, let alone to 1997.

Lucy Kellaway

Trading floor of the Hong Kong Stock Exchange

STOCK EXCHANGE

People make all the difference

THE ARCHITECTS of Hong Kong's stock exchange, rebuilt from the ruins of October 1987, never dreamed that a second shock was just 18 months away. But, so far, the market seems to have held up, and the new regulatory team is even allowing itself a little self-congratulation.

"We've been through our first test of a major market crisis and come out in good shape," says Mr Robert Owen, head of the recently-created Securities and Futures Commission.

The last time that prices fell 40 per cent, the exchange had to close and a mass of dirty dealing and defaults was revealed. When the market fell by a similar amount a month ago, dealing remained orderly, all margin calls were met, and any scandals have been slow to surface.

The achievement is all the greater since the complex new structure for the industry is only half in place. The idiosyncratic 24-hour paper settlement arrangement – which brought the whole market down in 1987 – has yet to be replaced by a modern electronic system.

The system, however, has been just about managing under the increased flow of bargains. The stock exchange has been calling emergency evening settlement sessions, punishing those brokers who fail to attend, and standing ready to settle any outstanding bargains itself.

Such measures reveal that the biggest difference between the stock exchange now and 18 months ago is not the fine print in the securities legislation but the people involved.

Since last year the market has had a professional executive management under the leadership of the youthful Mr Francis Yuen. The team, which is no longer in the pockets of the old stock exchange council, is trying to rebuild the reputation of the market with an almost missionary zeal.

Meanwhile, the council has been stripped of its corrupt elements. With a few corporate members, and even one foreigner, it is no longer a club run for the benefit of a few individuals. This is also reflected in the new rules which deprive the council of the right to set the prices of new issues – making it more difficult for members to line their pockets.

Later this year, a new disclosure rule will change practices even more fundamentally. All share stakes of over 10 per cent

Continued opposite

Michael Marray reports on the outlook for investment

One more cycle of profit

HARD THOUGH it may be to imagine in the current atmosphere of shaken confidence, many businessmen believe that there is still plenty of time for at least one more Hong Kong boom and bust cycle before the territory reverts to Chinese sovereignty in 1997.

Until recently, many people pointed to the year 1992 as the start of the critical period for Hong Kong, citing the local tradition of looking for a payback of less than five years on an investment. This short-term outlook could prove to be a major strength, with renewed determination to make the most of the years that remain, regardless of confidence in the post-1997 era.

In the short term, however, few people are expecting to see a continuation of the investment flows in manufacturing, retailing and property, and the explosion of regional headquarters and buying offices which have been experienced in the past few years.

Instead, new investment activity has ground to a standstill, most noticeably in the property sector. There is a general wait and see attitude until the economic implications of China's political upheaval become clearer.

Industrialists believe the continuation of China's open door policy remains in question, despite assurances from Peking officials that it is business as usual. Given Hong Kong's interdependence with Guangdong province, any closing of the door would have dire consequences.

Within Hong Kong itself, there are fears of a downturn in consumer spending as the local population switches to saving more, which would deprive the economy of an increasingly important component of its recent growth.

In the area of tourism, where visits by businessmen and tourists often link Hong Kong and China in the same trip, widespread cancellations are already hurting hotel occupancies as well as depriving retailers of an important group of customers.

Faced with such a picture, it is no surprise that potential new investors from overseas are content to put their plans on hold.

"For those who have already invested, there is no reason to change their plans," says Mr Goetz Funck, general manager of the German Business Association of Hong Kong, but for those only at the planning stage there is every reason to wait.

New investors from overseas are putting their plans on hold

"As long as we don't know what is coming next, we won't take any action," he says. Like most others, German businessmen will probably make use of the traditional summer lull as a convenient excuse to defer decisions until the autumn.

"Everyone is waiting to see what the other guy is going to do," says Mr Lawrence Mills, director general of the Federation of Hong Kong Industries.

He sees October as a critical test of confidence, when overseas garment buyers normally pour into Hong Kong to place orders in the vital textiles sector. If substantial orders are placed, then the re-equipping and buying of new plant and machinery will follow, Mr Mills argues. If the buyers stay away, the territory could be in for a rough time.

The September to October period is being widely cited as the time when investor confidence — or lack of it — will start to reveal itself.

People hope that the same natural advantages which built up Hong Kong in the first place — a natural deep water port serving as the gateway to China and a central position in the Asia region — will once again persuade overseas businessmen to invest here.

"It is still an extremely attractive place to operate from, particularly if you look at Hong Kong — as many American companies do — as a regional headquarters," says Mr Stephen Hunt, president of the American Chamber of Commerce.

Mr Hunt points out that the American presence partly mirrors the move in the Hong Kong economy towards a service sector role, with manufacturing moving over the border into China.

Regional buying offices, and marketing and servicing operations are coming in to make use of the good telecommunications and air links, and position as the gateway to China, he says.

"There is certainly going to be a harder look at Hong Kong, but at the end of the day it may well be that decisions are still made to set up operations here," Mr Hunt says.

However, those in search of a regional headquarters will be sure to examine other options such as Singapore. On the manufacturing side, countries like Thailand and the Philippines will be looked at for production facilities as alternatives to Hong Kong and Guangdong.

Hong Kong is likely to remain a convenient choice for some investors. Local businessmen will continue to combine a policy of diversification overseas with new investment within the territory, with the planned payback well before 1997.

"For new investments, we like to have an average payback of no longer than five years," says Mr Victor Lo, managing director of Gold Peak Industries, which manufactures small batteries and electrical appliances.

"We still have eight years left, and if the payback period is five years, I don't think we should let the situation in China affect our decision-making so much."

None the less, Mr Lo adds that now is not the time to hurry into any major projects.

The same advice is being heard on the property market which, over the past two years, has benefited from large amounts of regional money coming in from Australia, Japan and Taiwan. This, too, has sometimes been cited as proof of confidence beyond 1997, but overseas investors have generally been traders looking for shorter term profits.

"The vast majority of investors were looking for capital gain, they were not really looking for long term investment," says Mr Paul Varty, director at Chesterton Petty.

There was a noticeable absence of institutional money, such as pension funds and insurance companies, which would be seen in the London or New York property markets.

It is likely to be practical considerations — like the strength of the US dollar, to which Hong Kong dollar is linked — rather than emotion, which eventually determine whether regional investors from Japan and Taiwan, for example, return to make further investments in Hong Kong's hotel, real estate, retailing and manufacturing sectors.

Hard-headed decisions on investment could reap big rewards as they did after the 1982 property and stock market collapse and the 1987 global market crash. However, changes in China's economic policy or performance could still scare investors away from Hong Kong.

Hong Kong people withdraw money from a Chinese mainland bank

BANKING

In sound enough financial shape to withstand current pressures

THE HONG Kong Banking Commission was, perhaps, tempting providence to refer to an "absence of crises" in its latest report on the health of the banking system. Just four days after the report was published, the troops opened fire in Peking. The following day there was a run on Hong Kong branches of the powerful Bank of China, as thousands of protesting depositors queued to withdraw their money.

That event did not escalate into a monetary crisis, but it did bring home the dependence of the Hong Kong banking system on the Chinese mainland. Not only are Chinese banks among the most powerful in Hong Kong, with about 20 per cent of depositors' money, but the banking sector as a whole is heavily committed to China.

Nevertheless, Hong Kong banks are in good financial shape to respond to any shocks. Following the collapse of marginal banks in the early 1980s, banking supervision has been overhauled. Since September last year all banks have had to meet capital adequacy rules. This move has already put a stop to over-trading by

Following collapses in the 1980s, supervision has been overhauled

some deposit takers: in order to meet the requirement that capital must equal at least 5 per cent of assets, they have had to reduce their books by an average of 15 per cent. Japanese banks, by far the most powerful and aggressive of the deposit-takers, have had to cut back their activities by a quarter to meet the rules.

According to Mr Tony Nicolle, the banking commissioner, Hong Kong is better placed than many other financial centres to meet the new international guidelines on capital adequacy. "The Basle Committe calls for a minimum of 8 per cent by the end of 1992, but I expect we will achieve that much earlier," he says.

A more immediate concern to the banking sector is property lending within Hong Kong itself. The level of lending to the property sector has escalated over the past four years and now accounts for HK$145bn — about a third of its domestic loan book. With most of the developers fairly well capitalised and the local banks cautious after having their fingers burnt in the past, the risk is, perhaps, not an enormous one. However, there is concern that some of the banks are lending against high asset values — which, in many cases, have doubled in the past year alone — rather than looking to the ability of developers to pay.

Some fall in property prices is seen as unavoidable, but if it is limited to the 15 to 20 per cent correction that many analysts expect, the banks should escape relatively unscathed.

The damage to business confidence caused by events in China is rather mixed news for

An immediate concern to the banking sector is property lending

the banks, at least in the short term. On one hand, any rise in interest rates would improve their profitability, while a cut in demand for new loans will only increase competition for business — this was already fierce, and profit margins have already been squeezed. The banks are struggling to contain increases in their salary bills to 15 per cent this year. Given the shortage of labour, pressure on salaries is not going to ease.

Lucy Kellaway

CHINA'S INTERESTS

Stake could outstrip US'

NOBODY KNOWS quite how much investment China has in Hong Kong, but the total is big. At somewhere between $9bn and $25bn, China's stake probably far outstrips even that of the US.

The money is spread over almost every part of the economy, from property to hotels, manufacturing and banking. It comes from an equally broad range of investors, from the

One of the most visible and successful investors is Citic

central government through every province and municipality to companies and private individuals.

The size of China's direct interest might be seen as uncomfortably large, especially after recent events. However, the Hong Kong government argues that, if anything, it should make China less disposed to threaten the prosperity of the colony after 1997.

According to Ms Diane Yowell, of the Hongkong Bank China Services, few of the investments are politically motivated. "These companies are partly here to gain expertise — but mainly for a bit of profiteering," she says.

A more immediate danger is that China, which is desperately in need of foreign exchange reserves, may try and curb its overseas investment. However, so far the noises from the Chinese investors are no more cautious than from other investors.

Mr Larry Yung, managing director of China International Trust and Investment Corporation, said recently that current plans were on hold but that he did not expect any large revision in future strategy.

Mr Bob Taylor from the US consulate in Hong Kong says it would be impossible for China to bring back most of the money, even if it wanted to do so.

"The Government has already tried to clamp down on investment, and all it has managed to do is to close a few companies," he says. "The amounts involved have got too large. There has been a general breakdown of economic discipline."

He also argues that the Chinese savers — who on some estimates account for 10 per cent of stock exchange turnover — are unlikely to withdraw their money from the stock market, even after the recent fall, since they have a limited choice of places to put it.

One of the most visible and successful investors in Hong Kong is Citic, which over the

Companies have been quick to copy Hong Kong corporate habits

last two years has built up a diversified portfolio worth about HK$6bn.

It has increased the value of Peking's stake ten fold, through some acute churning of its assets, as well as by getting into the property and shipping markets. Citic also owns 12.5 per cent of Cathay Pacific, a 25 per cent stake in the new tunnel project and 20 per cent of Companhia Telecomunicacoes de Macau, which it bought from Cable and Wireless in March. It also has direct investments in plants making car parts, quartz and computers.

Citic investments are simply the tip of the iceberg. There are between 2,000 and 5,000 small and medium-sized China-controlled companies in Hong Kong, which in aggregate far outstrip the established players like China Resources, the Bank of China and China Merchants, many of which have been investing in the colony for 100 years or more.

Chinese companies have been quick to copy Hong Kong corporate habits by building complex business empires in which the ultimate ownership is difficult to trace.

Many have set up Hong Kong companies in order to enjoy the tax breaks offered by the mainland to foreign companies. The Hilton in Shanghai, for instance, is classified as foreign owned, even though 90 per cent of it is owned by China through a Hong Kong offshoot.

Lucy Kellaway

Market holds up to second shock

Continued from previous page

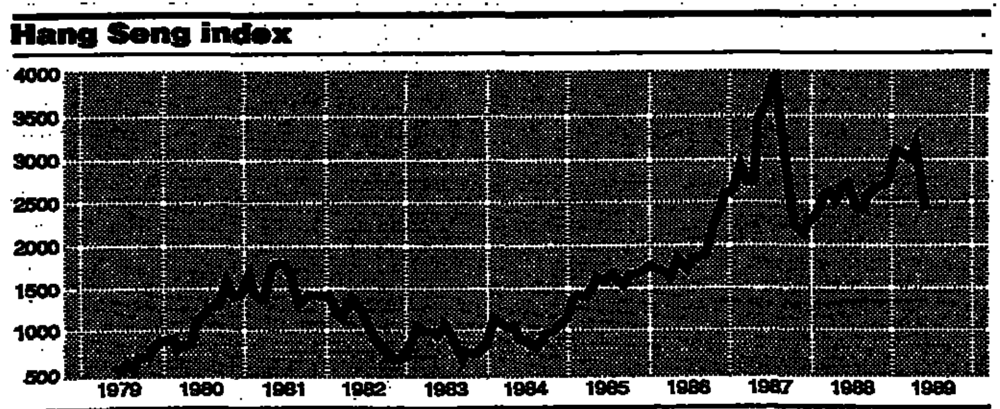
must be declared, and controlling shareholders must announce any changes of 1 per cent in their holdings.

The new rule will not only make it more difficult for the families — who typically account for about 40 per cent of turnover in the shares of their companies — to manipulate prices, but it will give the market a transparency that it has never had before.

Next year a new electronic settlement and clearing system is due to come into operation. Once upon a time this would have been a cosy profit opportunity for the biggest player, but now the system is to be half owned by the exchange and half by six banks. It will be operated on a non-profit basis.

In the more distant future, the plan is not just to change practices and systems, but to change the very style of the members. There are plans to introduce exams for new members, and to teach the old ones about such things as p/e ratios and yields.

Hang Seng index



The new Securities and Futures Commission, which started its official life only last month, is changing business practices still further. The commission is still struggling to appoint its 229 regulators, but eventually they will have most of the powers that in the UK are shared among the Takeover Panel, self-regulatory bodies and the government.

The transition from the old freewheeling market to the new professional one is not altogether running smoothly. There has been a good deal of undignified sniping between the stock exchange and the SFC, which some people believe is simply duplicating the functions being carried out by the exchange.

Initially there was also a culture clash between the SFC, the senior ranks of which are entirely composed of foreigners, and the predominantly Chinese stock exchange, as well as a certain amount of personal antipathy. In recent months, however, the two bodies seem to be getting on more amiably.

By contrast, the concern about over-regulation is not going away as the new measures are being put to the test. Mr Mark Mobius, of Templeton International, argues that "the medicine is worse than the disease."

He complains of a HK$300,000 legal bill and a four-month delay in setting up a mutual fund that had already been approved by the regulatory bodies in the US. "This kind of regulatory harassment is not in the interests of investors — who will have to pay for it in the end," he says.

Mr Mark Faber from Drexel Burnham Lambert goes further. "Fraud and corruption is an integral part of the market here in Asia, and there is no point trying to change it," he says.

Mr Robert Owen flatly denies that anything valuable is being lost. "When Happy Valley got rid of horse race fixing, the interest went up," he says. "Better regulation and protection for investors should actually increase trading."

There has also been criticism about the decision to make insider trading a civil rather than a criminal offence. The drafters of the new law, however, argue that the onus of proof for a criminal conviction would be so great as to make the law ineffective at catching the offenders.

Meanwhile, the futures exchange, which would have disappeared altogether at the time of the crash without a HK$2bn lifeboat, has been resurfacing rather more slowly.

It is only in the past month or so that turnover has risen above the 4,000 contracts a day needed to cover running costs — still a tiny fraction of volumes before the crash.

It has taken a great deal of effort to secure the necessary majority for the restructuring plan. Success was finally achieved, freeing the exchange to stop fire-fighting and start introducing new contracts, attracting new members and so on.

The Hay Davidson report doubted whether a futures market was really necessary to the future of Hong Kong, and even though the new chairman, Mr Eoghan McMillan, is reasonably confident about the prospects for futures, the jury is still out.

Lucy Kellaway

How much of a slump will follow the property market boom of the past year?

'Wait and see' line on residential sales

A 12-MONTH surge in prices on Hong Kong's property market finally ran into difficulties in early June. Following the violent crackdown on the protest movement in China, investors paused for thought as they looked down from the dizzy heights reached in all sectors of the market.

The 1988/89 property boom emerged against the unlikely backdrop of the 1987 world stock markets crash. Transactions dried up for several months as many investors sat waiting for a clear direction to be established. They then found they had to rush to jump on the bandwagon of spiralling prices.

This time round there are still those who are looking for another gravity-defying performance. Most, though, are anticipating a drop of 10 to 20 per cent in sale prices, and do not, in the short term, expect to see many of the kinds of multi-billion dollar deals which were a feature of 1988 and early 1989.

In the commercial rental sector, however, property agents remain reasonably optimistic about the future. Rentals for office space in Hong Kong's central financial district are now more expensive than those on New York's Wall Street, ranking number three behind Tokyo and the City of London in the world league table. Indeed, local landlords have been encountering some resistance from tenants as leases come up for review.

The cost of prime office space for rent doubled between the start of 1988 and the first quarter of 1989, with figures of up to HK$75 per sq foot per month now commonplace in a prestige address such as Hong Kong Land's Exchange Square, and HK$50 in the, as yet unfinished, Bank of China building, though there are substantial discounts for large users.

Soaring rentals have led to the phenomenon of rent refugees, with many companies moving back office functions to new office buildings in hitherto industrial and residential areas of Kowloon, particularly those which are adjacent to stations along the underground Mass Transit Railway network.

This means that office developments are now competing for scarce space with industrial buildings, adding to concern among manufacturers about rising rental costs which they, themselves, have experienced over the past year. There is a particular demand for well-located good quality warehouse space.

In Hong Kong's bustling retail sector, shop frontage on main roads and within the many indoor shopping centres is also fetching good prices, as consumer spending continues to be strong. Though reasonably optimistic about the outlook for the office, industrial and retail rental sectors, property agents are more worried about the residential sales market where, with confidence badly shaken by the bloodshed in Peking, individual investors may be scared off.

Though reasonably optimistic about the outlook for the office, industrial and retail rental sectors, property agents are increasingly worried about the residential sales market — individual investors may have been scared off by recent events

"If there is any sector to be hit it must be the residential market," said Mr Gareth Williams of property agents Vigers Hong Kong. Figures from Vigers show that prices for residential flats grew by 48.6 per cent between the first quarter of 1988 and the first quarter of this year.

"What is happening is that people are taking a wait and see attitude," Mr Williams said. Vendors are reluctant to sell at lower prices and so few transactions are actually going through.

"Residential sales have slowed down dramatically," agreed Mr Dominic Leung of property agents Richard Ellis. "But, in terms of leasing, things are going fine," he said. The brain drain among the local Chinese professional classes has meant that more expatriate executives have been brought in. They demand first class accommodation as part of their overall renumeration package and have helped push rentals for large flats in the colony to astronomical levels. Worries about the future have also led to a trend of renting rather than buying property.

Mr Leung said that high price levels, high interest rates, and a substantial supply of new developments coming on to the market had all been pointing towards some sort of correction during 1989. This is despite the fact that affordability is still high after several years of economic growth and rising wages for the territory's population.

One positive factor is that this time round the market is made up of end users and not highly-geared speculators as was the case prior to the 1982 property crash. "We are lucky this time," Mr Leung said. The banking sector, in particular, has tightened up its credit policies during the past few years.

With strong end-user demand in all sectors, there is still a possibility that Hong Kong will weather the storm of shaken confidence in the run-up to the 1997 hand-over to China.

The next big psychological test for the market is the sale by tender of the large site behind the new Bank of China building in Central, for which bids have to be lodged with the government by July 21. As news leaks out about the number of bidders and the sale price – assuming a high enough offer is received – the information will be eagerly jumped upon as providing the forecast for the future of Hong Kong's property market over the next few years.

Michael Marray

Around HK$29bn-worth of road and rail development will help to ease congestion

The second tunnel: ahead of schedule

On track for the next century

IN THE WAKE of several years of runaway economic growth, Hong Kong's transport system is becoming increasingly congested, with each morning and evening rush hour reducing road traffic to a snail's pace. There are long tailbacks at the entrances to the cross harbour tunnel, and there are now even Tokyo-style packers to help passengers on and off trains at crowded Mass Transit Railway stations.

In response to these problems, the government recently released a green paper outlining the likely policies which will carry the colony into the next century. Some HK$29bn of road and rail developments are envisaged, including both public works and privately-funded projects along the lines of the privately-built and operated second cross harbour tunnel which will be open to both road and rail traffic by August.

Sir Piers Jacobs, Hong Kong's financial secretary, said recently that planning is proceeding on all major projects, including a new airport and container port, in spite of recent events in China. This is seen as essential if confidence in the future of the territory is to be maintained.

At present, a site at Chek Lap Kok, off Lantau Island, is thought to be the favoured option for the new airport. This is expected to go ahead despite an anticipated slow-down in the rate of traffic growth at the existing over-crowded Kai Tak airport. The green paper proposes a three-pronged strategy of better public transport, an improved infrastructure and better management of demand for road use.

"All three elements are equally important," said Mr Michael Leung, secretary for transport. A balanced package is the aim, including items such as bus-only lanes, computerised traffic control, and a building-up of the more efficient mass carriers such as rail links, while trying to trim the number of cars on the road. One loophole likely to be closed is the lower tax on goods vehicles – many are used as passenger vehicles without any genuine business need.

Zoned payments, or electronic road pricing – which disappeared amidst a chorus of indignation after a trial run between 1983 and 1985 – are also being considered. The government has promised, however, that any new road pricing system will not be along the old lines.

Mr Leung stresses that the tradition of leaving public transport systems in private hands will continue to be a central plank of government policy. "They all operate on commercial principles and make profits," he said. "We do not wish to upset that philosophy."

The HK$9bn taken up by new rail projects, including new rail links connecting parts of the New Territories, extensions to the current subway system and a third rail harbour crossing, should all be privately financed, as will tunnel sections within the road network where charging toll fees is practicable.

The first cross harbour tunnel, completed in 1972, is a thriving concern with its HK$10 toll. The second crossing, meanwhile, with road and rail tunnels, has been completed well ahead of schedule and is forecast soon to carry 35,000 to 40,000 vehicles per day.

The government invited tenders in 1984 and the following year awarded the project to the New Hong Kong Tunnel Company to finance, build and operate the tunnel at an estimated cost of HK$3.4bn. The road franchise runs until 2016 and the rail tunnel until 2008, the latter being leased to the Mass Transit Railway as part of its network.

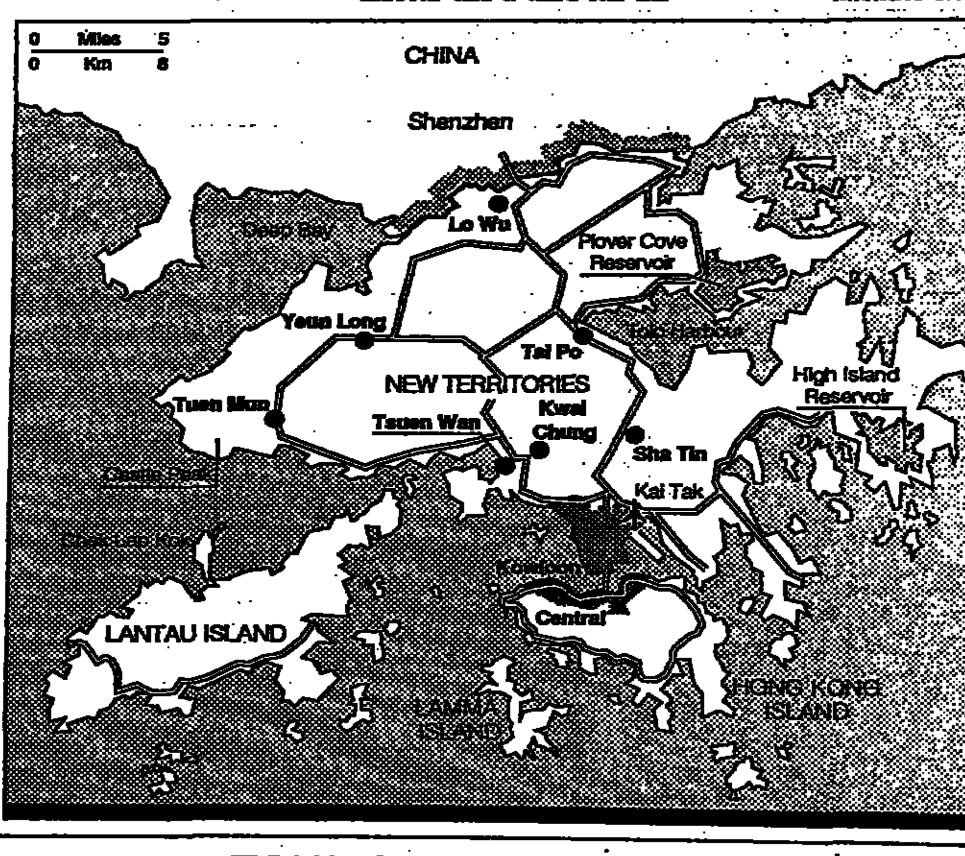
It took only 38 months for the 1.86k tunnel to be finished, comprising 15 pre-cast concrete units each weighing over 40,000 tonnes which were floated into position, immersed and then joined together. Auxiliary feeder roads were also built by the tunnel company under the terms of its contract.

The payback on such projects extends well beyond the 1997 handover of sovereignty to China, but the government still hopes that private investors will continue to compete for the right to operate such facilities, starting with yet another road tunnel under the harbour and a third rail harbour crossing within the next decade.

Most of the infrastructure planning in the green paper concerns the moving of people and traffic around Hong Kong itself but, also critical, are the traffic flows to and fro across the border with China, where around 12,000 trucks cross every day.

Assuming no dramatic slamming of the open door by China, this total will continue to rise, particularly if the private sector-financed highway being built by Mr Gordon Wu's Hopewell Holdings, which will link Hong Kong, Canton and other cities of the Pearl River Delta, is completed.

Michael Marray



TOURISM

Diversification abroad

AS HONG Kong hotel owners and operators have embarked upon a spending spree around the world, the local hotel industry has developed from being merely an outpost in the global industry into being a base for overseas expansion.

Hotels such as the London Churchill, the former Ramada Renaissance in San Francisco, and Maxime's de Paris in New York have all been snapped up by local companies. The North American Omni and Aircoa chains, meanwhile, are now controlled by Sir YK Pao's Wharf Group and Mr Lo Yuk Sui's Regal Hotels, respectively.

The springboard for this expansion has been the remarkable success of Hong Kong's own tourist industry which, between 1983 and 1988, saw the number of visitors more than double from 2.7m to 5.5m.

"Hong Kong hotels have for the past five years been sitting on a remarkable financial success," said Mr Kenneth Mullins, vice president of Park Lane International. Mr Mullins' company itself paid the highest price ever for a European hotel when it acquired the London Churchill for £110m in early 1988 – a price which today no longer looks particularly expensive.

Mr Mullins argues that this success in Hong Kong has bred confidence and a desire to search out new opportunities overseas at the same time as providing resources to back up expansion plans.

The building up of a chain of properties in the key cities of the world brings substantial benefits, especially on the marketing side. Another reason for acquiring properties overseas is that Hong Kong companies wish to diversify their assets out of the territory ahead of the 1997 change of sovereignty.

Cancellations began to pour in as soon as the military crackdown began in Peking

Despite this process of diversification, local owners and operators still rely upon Hong Kong for a significant share of their profits, so they are worried about the problems currently facing the local industry. A construction boom will result in around 10,000 extra rooms coming on stream by the end of 1991, prompting fears of a glut of hotel rooms even before the recent turmoil in China cast its shadow over Hong Kong.

Downward pressure has already been seen on room rates and occupancy levels, though, until recently, tourist arrival figures were continuing to rise at a fast pace. But the violence in China promises to dent growth prospects in the short term because many businessmen and tourists come to Hong Kong as part of an itinerary which includes China.

Cancellations began to pour in as soon as the military crackdown began in Peking. Bookings are in doubt for the peak October to December season, for which travellers in key markets such as Europe and the United States will soon be choosing their destinations.

According to Mr Douglas King, director of marketing at the Hong Kong Tourist Association, the biggest effect is likely to be seen in the Taiwanese market, which grew by 213 per cent to over one million in 1988. Most were using Hong Kong as a stopping-off point into China following the relaxation of travel restrictions.

Mr King is, however, more optimistic about visitors from Japan, most of whom treat Hong Kong as a destination in itself rather than an add-on to China. Some 1.2m Japanese came into Hong Kong last year, and another 335,000 in the first quarter of 1989. They are the biggest spenders of all, averaging some HK$7,376 per head. This compares with HK$6,486 from North American visitors and only HK$4,856 from the Taiwanese.

The combination of new rooms coming on stream and a slow-down in growth of arrivals will continue to affect the profitability of hotels, at least in the short term. But with an average occupancy rate of 92 per cent in 1988, local hoteliers at least have a comfortable cushion to absorb the slow-down in business.

It is the new hotels which are most likely to have problems, and price-cutting tactics in order to bump up low occupancies could spell even lower profits for the industry. But, according to Mr Mullins, the hunt is still on for new properties abroad, with Park Lane targeting New York and Sydney, and Hong Kong and Shanghai Hotels looking at a number of cities including Tokyo. Meanwhile, while Mr Lo Yuk Sui's Regal group is determined to use its North American Aircoa chain as a base for further global expansion. Mandarin Oriental is also still on the lookout for suitable opportunities.

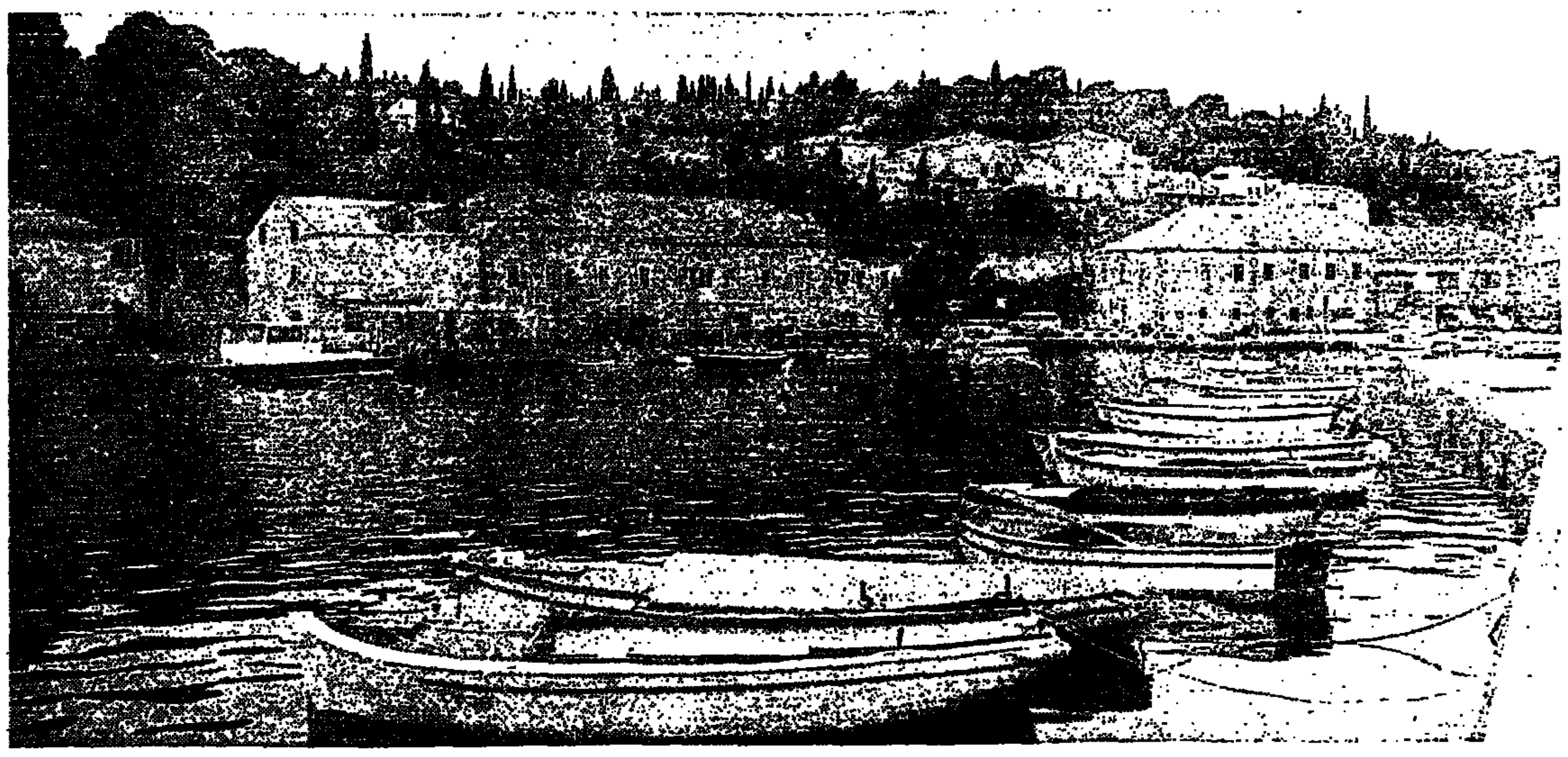
Regardless of further deals in the coming year, the tables have already been turned by Hong Kong's hotel operators. In the past it was the big international chains which came into the territory; now local hotel groups are, themselves, expanding world-wide. This is yet another example of the changing economic balance between the new-found wealth of Asia and the old money of Europe and the US.

Michael Marray

SECTION IV

FINANCIAL TIMES SURVEY

Ante Markovic, the Yugoslav Prime Minister, is intent on making the economy market-oriented. He wants to weaken the role of the ruling communist party, but his task has not been made easier by a resurgence of nationalism, writes Judy Dempsey



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☐ Cavtat, near Dubrovnik, photographed by Terry Kirk

Editorial production: Gabriel Bowman

YUGOSLAVIA

Medicine for nationalism

YUGOSLAVIA IS at a crossroads. Committed to introducing what appear to be radical economic reforms, the authorities are faced with adapting the political system to these changes. But the problem is that the signposts are unmarked.

Unlike Hungary or Poland, Yugoslavia's ruling League of Communists (communist party) remains uncertain about which direction to take. The longer it hesitates, the greater the chance the reforms will founder.

Hungary and Poland realised that any economic reforms depended on two crucial ingredients. One was an injection of western capital to revitalise the economy. The other and more radical one was a liberalisation of the political system in order to gain support from their populations, an essential plank for the success of the economic reforms. This latter decision has led to the dilution, to an unprecedented degree, of the communist party's monopoly.

However, Yugoslavia's economic crisis, plagued with a rising inflation rate which, it is reckoned, will reach 1,000 per cent by the end of the year, poses greater challenges for that country's communist party.

Unlike Hungary or Poland, Yugoslavia is far from homogeneous. It can boast at least 17 nationalities/minorities. But in the same breath, those nationalities each have very different degrees of political experience and political culture. The challenge now facing the Yugoslav party and government is how to find a system which not only facilitates economic reforms, but one which is compatible with the myriad of expectations and political attitudes prevailing throughout the country.

This is one of the unenviable tasks facing Mr Ante Markovic, a deceptively calm, but resilient, politician who is determined to push through bold reforms. But the more he aspires to creating what amounts to a market-type economy, the sharper the political, economic and cultural differences become. Above all, age-old nationalist antipathies are now dividing the country and influencing, if not distorting, the debate on political reform.

These nationalist tensions are not the result of 40 years of communist rule. Rather, they are historically embedded in a country which only the communists could until recently contain.

Under Tito's rule, Yugoslavia was held together by several threads. The first was the Second World War. By sheer energy and organisation, the communist party, through the Partisans, fought to protect the fragile integrity of the country, despite defections by Croatia to the Nazis. That unity earned the communists considerable support. Of even more importance was the break with Stalin in 1949 which gained Tito great respect both domestically and internationally.

To capitalise on the ideological differences between Moscow and Belgrade, Tito and his advisers embarked on a road towards Yugoslav-style socialism based on workers' self-management. But over the years, this has been slowly smothered as the ruling communists constructed colossal bureaucracies.

True, such bureaucracies had been a tendency in ruling communist parties throughout Eastern Europe. But Yugoslavia went one stage further. In order to contain the latent nationalism, the communist parties in the six republics were granted a wide measure of autonomy from the central authorities in how they ran their regional economies. Political and economic autarchy, combined with rapid economic growth, soon became substitutes for nationalism.

When nationalism dared rear its ugly head, Tito resorted to repression. The nationalist movement in the northern republic of Croatia in 1971, and in the southern province of Kosovo in 1981, testify as much to Tito's determination to suppress nationalism as to his authoritarian style of leadership.

Such a policy of containment was also helped through what appeared to be a bottomless well of credits from western financial institutions which were shovelled into building uneconomic prestige projects in the republics.

But those days of endless supplies of dollars are over. So too is the dream of a worker's self-managed socialist society.

"The tragedy is that we wasted the late 1960s and the 1970s by not introducing reforms," says Mr Branko Caratan, a member of the party's federal central committee. In addition, by relying on goodwill from the West, a reasonably high standard of living and a relatively liberal system, the ruling communists had few reasons to reform. Besides, there was little pressure from either inside or outside the party to change course.

Today, however, as the Soviet Union, Hungary and Poland press ahead with defining the future role of the communist party, Yugoslavia's communists are locked in an unbelievable war of polemics and vitriol which has brought nationalism to a boiling point and which often seems to threaten to break up the fragile unity of the federation.

This rise in nationalism is partly due to a highly complex picture of how the six republics view political power and political reform.

The north-west of the country, endowed with fertile land and a political culture bred on the Hapsburg Empire, is that much closer to Europe than to the Balkans. These lands are Catholic in religion and outlook. And, despite the benevolent despotism meted out to them over the centuries from Vienna, they have retained some degree of a civil society which persists in the national consciousness to this day.

Thus, party officials in Ljubljana or Zagreb tend increasingly to perceive political power not as an immutable object, but as an ever-changing subject which should be made accountable to the people. But paradoxically, the more these republics talk about political pluralism, the more nationalist their vocabulary becomes.

Part of the reason is the existence of an historical antipathy towards Serbia, the largest of the republics. Thanks to constitutional amendments passed earlier this year, Serbia regained Kosovo and the northern province of Vojvodina, two regions which were constitutionally attached to it, but in practice were largely autonomous. Now that both provinces are back in the Serbian household, Slovenia and Croatia fear that Serbia, equipped with its newly-won siblings, will, through authoritarian rule, attempt to dominate the Yugoslav federation.

These debates today are almost reminiscent of those which took place after 1918 when the country was struggling to be born.

Whether or not these fears of Serbia are justified, they have made life difficult for Mr Markovic. What he wants to do is to separate the party from the state. Let the government run the economy, he says. Let the party sort out its own affairs. But as he revises and refines his economic reforms, the political language between the republics continues to sharpen.

Slovenia threatens to pull out of the federation altogether while Serbia drums home the need for strong party leadership and Croatia sinks into even deeper pessimism about the future of Yugoslavia. Meanwhile, the rest of the country reluctantly prepares to swallow Mr Markovic's medicine.

The medicine is sour but necessary. Mr Markovic, a veteran expert at successfully running large enterprises, knows that the old system of tenure at the workplace, patronage from the party, and the *nomenklatura* have to be dismantled. He knows that few foreign investors will come to Yugoslavia if the party, the bureaucracy and the banks are not fundamentally changed. He knows too that these measures carry the seeds of potential unrest, since thousands are expected to lose their jobs.

Economists agree he has to act now, and singlemindedly. But those same economists argue that the political system will block the successful implementation of the reforms. All the more reason why Mr Markovic and his advisers are anxious to write a new constitution.

The current one, a document infested with realms of turgid polemical jargon which invest a vast range of powers to the communist party, can still be used by the republics' elites to block the reforms.

Continued on Page 2

KEY FACTS

Area	256,000 sq km
Population	23.41m
President	Janez Drnovsek
Prime Minister	Ante Markovic
Birth rate	15 per 1,000 population
Labour force (1985):	88% of total population
Urban population (1985):	45% of total
Doctors per 1,000 inhabitants (1982)	1.6
Real GDP growth	(1988) -1.5%, (1987) 0.5%, (1978-88) 1.5%
GDP per capita (1987)	$2,679
Inflation: (1988) 194%, (1987) 120%, (1977-87) 46.5%	
Exports of merchandise:	(1988) $13.13bn (1987) $12.33bn

Imports of merchandise:	(1988) $13.63bn (1987) $13.29bn
Current account balance:	(1988) +$2.21bn (1987) +$1.25bn
Reserves including gold: (April'89)	$1.843bn
Main export destinations (1987) Soviet Union 19.4%, Italy 13%, W Germany 11.6%	
Main import sources (1987) W Germany 18.3%, Sov. Union 15.3%, Italy 10.3%	
Foreign debt (end-1987)	$14.45bn
Debt service ratio	13.3%
Average exchange rate (1988) $1 = Dinars 2,523	£1 = Dinars 4,495
Population by republic (1985) Serbia 41.5%, Croatia 20.1%, Bosnia and Herzegovina 18.7%, Macedonia 8.7%, Slovenia 8.3%, Montenegro 2.7%	

Judy Dempsey looks at the chances for political pluralism in the light of nationalist pressures on the federation

Politics is waiting to come of age

Ante Markovic, Yugoslavia's Prime Minister

Slobodan Milosevic, former Serbian party leader and now the republic's President, is second on the left in this photo from the federal Parliament last September

IT IS tempting to view Yugoslavia today through the historical lens of the early 1920s.

Then, the young country, called the Kingdom of Serbs, Croats and Slovenes, was bickering over what kind of constitution it would adopt.

The debates were fascinating. Small political parties in equally small Slovenia wanted autonomy within some form of unitary state. The last thing they wanted was a highly centralist state which would possibly be dominated by Serbia.

The Croats hovered between political autonomy and centralism. Like their Slovene neighbours, they feared the growing power of Serbia.

And Serbia, that proud, almost schizophrenic nation, rationally attracted by Europe's political traditions but emotionally wooed by her great Slav neighbours to the East, wanted a highly centralised and unitary state.

After months of negotiations, the Vidovdan Constitution, a centralised constitution if ever one existed, was adopted on June 28, 1921.

The Serbs were delighted. "This year's Vidovdan restored an empire to us," proclaimed an editorial in Samouprava, the newspaper of the Serbian National Radical Party.

However, both the victory and the empire were short-lived. Royalty soon took over the reins of power and quashed the fledgling parliamentary democracy.

Nearly 70 years later, the struggle between republics fighting to retain their autonomy versus a centralised state is as strong as it was in the early 1920s.

A crucial component dominates the debates: the role of the communist party. But the League is paralysed, after maintaining a semblance of unity for 40 years

However, this time round, one crucial component dominates the debates: the role of the ruling communist party.

But Yugoslavia's League of Communists is paralysed.

Having maintained a semblance of unity over the past 40 years, it is now involved in an intense and divisive debate whose outcome will almost certainly dictate the political future of the country.

At the root of the discussions is how the party should be reformed. And like the debates between 1918 and 1921, the three key players are Serbia, Slovenia and Croatia.

How the other three republics – Montenegro, Macedonia and Bosnia-Hercegovina – will react to the debates will be a crucial factor in deciding the nature of political pluralism in the country.

The Serbian view, promoted by Mr Slobodan Milosevic, the former party leader of Serbia, but now the republic's President, advocates a highly disciplined party leadership.

Party officials in Belgrade – most notably, that arch-conservative, Mr Vladimir Stambuk – speak of democratic centralism in the party, a term which the Hungarians and Poles have already relegated to the historical archives.

Serbia's view is that the root of Yugoslavia's political and economic problems rests in corrupt, old party leaderships and bureaucracies who for years used political power for their own advantage.

Mr Milosevic, a zealous politician who wants to clean up the image of the party in Serbia and other parts of the country, took this message to the streets last year.

There, he unashamedly accused the republics' leaderships of disregarding the wishes of the people.

And last autumn, in a wave of populism, he encouraged his Serbian supporters to topple the party and government leaderships in the northern province of Vojvodina.

In October, the party and government leaderships in Montenegro fell, again partly due to pressure from Serbia.

The other republics were shocked by the power and force emanating from Serbia.

Slovene and Croat party officials seriously believed that if Mr Milosevic could influence events in Vojvodina and Montenegro, he could do likewise in the northern republics.

Yet, paradoxically, the response by the Croats towards the rise of Serbian power and nationalism has been judicious if not plain Machiavellian.

Mr Stipe Suvar, the former party leader of Croatia and the former federal party leader, quickly sensed the need to seek support from his own Croats in order to withstand the polemical onslaught from Serbia.

Overnight, he changed his conservative coat and donned a liberal suit.

He encouraged independent political grouping to emerge. Today, Croatia can boast at least four independent political movements.

"If the party is to survive here in Croatia and keep Serbia at bay, then it will have to seek some support, some legitimacy from its own people," says Mr Slavko Goldstein, one of the founding members of the small Croatian Social-Liberal Alliance.

More significantly, Mr Goldstein says that "if we have strong nationalist movements in Yugoslavia without democratic processes or without a democratic programme, it will *be disastrous for the country.*"

This call for political pluralism is not only confined to Slovenia and Croatia. It is spreading to Bosnia-Hercegovina and Montenegro where the youth movement and a younger generation of party officials appear anxious to liberalise the party's rigid structures. It is even spreading to Serbia.

Moreover, the growing consensus among the republics is that if Mr Ante Markovic, the recently elected Prime Minister, is to succeed with his economic reforms, the party will not only have to cede greater power to the Government. It will also have to loosen its grip on the economy.

'Milosevic is obsessed with the economic successes of Korea and Japan. An authoritarian-style political structure, he seems to think, is the key to push through economic reforms'

However, while there is a wide degree of consensus among the republics about the need to introduce a market economy, Serbia has a particular vision about the political structures necessary to make the market economy effective.

"Mr Milosevic has a vision for Serbia in particular and for Yugoslavia in general," say Serbian economists.

"He is obsessed with the economic successes of South Korea and Japan. He seems to think that an authoritarian-style political structure, which existed in South Korea until recently, is the key to pushing through economic reforms throughout the country," comments a close aide of Mr Milosevic.

Officials also add that the Serbian President is impatient with the growing power of the republics and their ability to block reforms.

That, however, has been one of the prices to pay for a multi-ethnic and highly heterogeneous country.

But equally, the very diversity of Yugoslavia negates the possibility that it can emulate the South Korean experience.

Yet if Serbia has specific views on political and economic developments, it also worries increasingly about the plethora of independent political groupings which have sprung up in recent months.

Serbian intellectuals and indeed even political scientists from Croatia have posed one interesting argument against institutionalising political pluralism.

Because Yugoslavia is so diverse and because the political experiences and political cultures are so far apart from each other, there is an underlying fear that any future political parties will be based on national or ethnic interests rather than on federal ones.

Interestingly, there is, to date, only one independent political group which tries to transcend the boundaries of both republic and nationality.

Called the Association for a Yugoslav Democratic Initiative, the movement is based in Zagreb, Croatia and is led by Professor Branko Horvat, the distinguished economist.

In this light, worries for example, that an independent Serbian socialist party would win an election and dominate the Parliament are understandable.

But as liberals point out, such arguments cannot be used indefinitely for postponing some form of political pluralism.

This fear of any one republic dominating the federation was one of the reasons why the late President Tito devised the 1974 constitution. That not only contained nationalism; it also gave the republics equal representation on the party's central committee.

"This system must continue," say Slovene party officials. "Otherwise, we will be swamped by Serbia which has the highest party membership in the country."

But Serbs, for their part, argue that they are under-represented by virtue of their large party membership.

Ever-optimistic party officials hope that these bitter arguments will be resolved at a party congress which is due to be held later this year.

Then, there are plans to write a new constitution.

Already, party and government officials are arguing about the nature of that new constitution.

Should it contain any references to the leading role of the party? Should it stipulate a multi-party system? Should it mention the party at all?

Few Yugoslavs are certain how consensus will be reached. Few of them believe the months of internal party bickering will soon end. All, however, believe that Yugoslavia is going through one of its most serious crises since the Second World War.

But this time round, unlike 1921, there is no monarch waiting in the wings. Instead, politics is waiting to come of age.

Medicine for nationalism

Continued from Page 1

"The only way we will resolve this nationalism issue is by channelling it through independent political parties," says one of the party's top political scientists. "If not, it will spill onto the streets." That has already happened in Serbia.

But the party, even if it denies it is a reluctant reformer, nevertheless remains a deeply divided one. Yet this time round, neither the party nor the government has the West from which to seek economic help, nor the East to use as the bogeyman. "We are alone now. No fear of war. No money. No threat from Moscow. To survive, we will have to walk together" are statements often heard in Belgrade.

Mr Markovic has strong nerves and knows which direction to go. But the party leadership refuses to choose, let alone walk with *him*. Time will tell if Mr Markovic can go it alone, or indeed if Yugoslavia can hold together.

INTERVIEW WITH THE PRIME MINISTER

'Five years will be needed to control inflation'

IN AN interview given to the FT for this survey – the first to the foreign press since he became Prime Minister in March – Mr Ante Markovic revealed himself as a consistent pro-marketeer, an optimist on the possibilities of his reform programme; cautious on the possibilities for political reform; and a man in a hurry.

"Time is our major enemy," he said as preface to the interview. He explained this as meaning that the longer time elapsed between proposing market reforms and *implementing* them, the longer the administrative and political conservatives would have to group and block reforms. This consciousness of his programme's encirclement by hostile forces leads him to use the metaphors of battle – "I expect hostility from dogmatists, conservatives and ultra-leftists – they're not united yet, but I am expecting that to happen.

"I don't fear them – it's a normal process. But speed is of paramount importance to take the initiative away from the conservative forces. I won't describe the tactics of my battle, but we will go forward on several fronts."

Speed is of paramount importance to take the initiative away from conservative forces

With that in mind, he sees the first year of his government as the critical one – "by this summer we should have adopted all the legislative acts which we need as a framework for the new economic system. This will be a framework of a unified economic system with a market which will be international, and with all kinds of ownership on an equal footing.

"We shall see a start to the process of changing *anonymous* capital into *social* capital" – a transformation the Prime Minister has, in speeches, also referred to as giving the rights of real ownership, either to private companies, to co-operatives or to the workers themselves.

The whole programme he sees as being a five-year one – the full term of his Government – and the aim at the end of it is to have the dinar convertible and inflation under control. No-one suggests it can be done more quickly – but can it be done at all, with a weak federal administration and a resurgent Serbia?

"Do you believe that I would be here unless I thought I could really succeed?" Mr Markovic asks sharply when that is put to him. "Do you know of a leader who thought he would lose a war, a player who thought he would lose a match? Obviously not!"

The new system will, he says, revive and renew workers' self-management, raising it from a bureaucratic sloth. "It gives self-management more room, and pushes it to the fore. Workers will take on new rights – and new responsibilities too, which they previously didn't have.

"Personally, I see the reform in this context as one of motivating the individual and his taking responsibility for himself. It gives him a chance to affect his own environment. This is the problem of all developed societies.

"Being anti-dogmatic, I don't think there's only one way of doing it. But (the aim is) to bring the workers closer to the marketplace and allow them to make decisions based on market signals."

On the troubles in the southern province of Kosovo, the Prime Minister was robustly hopeful. (The riots, by the majority ethnic Albanians in the province last year, were sparked off by a change in the Serbian constitution to restore full Serbian control over its southern province, and the northern province of Vojvodina – both of which had been taken from it by Titoist reforms in 1974.)

He said: "The constitutional changes in Serbia were within the framework of the Yugoslavian constitution – and that is binding for all parties. The fact is that before these changes were introduced the republic of Serbia was not adequately constituted – now it is. The relations between Serbia and (Kosovo and Vojvodina) cannot go beyond what is guaranteed in the constitution. There will be time needed for practical solutions to be offered to meet the issues and tensions which arise."

On political change, Mr Markovic is ambiguous, seeming to confine his aims to a pluralism *within* the ranks of the League of Communists – or at least, making no commitment to what kind of change he will see in the future. "We have been radical on the economic system – but the political system didn't follow adequately from that. We simply were not capable of improving on it.

"In order not to lose more time, we've been pragmatic – we hoped to introduce changes in the economic field – and these would bring along political changes in their wake. This will be more obvious when the new political system is in place.

"The initial changes are already in place: there is the possibility of nominating more than one candidate, and of having a second ballot (if none gets the majority of votes first time). No-one is now guaranteed to be elected.

"I feel the logic of development of the new economic system will demand changes in the political system – or rather, if they do not happen, they would put the new economic system in jeopardy."

As Prime Minister of Croatia from 1982-86, he earned the reputation of a political liberal and an economic pragmatist.

Development of the new economic system will demand changes in the political system

He went through the war as a partisan and put 35 years of industrial leadership under his belt at the *Rade Koncar* engineering plant in Zagreb (where he was director for 15 years). His experiences have made him open-minded enough to embrace change but wise enough not to expect it to happen merely because it seems essential.

Many within and outside Yugoslavia give Mr Markovic at best an even chance. His programme is sharper than that of Mr Branko Mikulic, whom he replaced and about whom he will not comment: but it is essentially the same, and he has the same constellation of political forces with which to deal. Already, his plans to form a more unified market in Yugoslavia have run into resistance from the Federal Bank: and the speed which he sees as so urgent is being slowed by the fear of republics that they are being railroaded.

Mr Markovic is Yugoslavia's first politician, but his powers are everywhere cramped by *people who are more powerful* in their patch. He must make the federal writ run further: no-one since Tito has been able to achieve it. He has the crisis on his side, but not time.

John Lloyd

John Lloyd looks at the prospects for the economy

An oblique way to solve a crisis

THE EVIDENCE of crisis is obvious enough from the bare facts. Inflation – 200 per cent last year – could triple in 1989. There has been a real decline in living standards. Foreign debt stands at some $33bn, or 160 per cent of the annual foreign exchange earnings. The black economy reaches some 30-40 per cent of GNP. The former Government – that of Mr Branko Mikulic – resigned last December, fallen after an austerity package provoked widespread strikes and failed to stem inflation.

Branko Mikulic, who resigned after his austerity package failed to stem inflation

If the easy tenor of life and the relative (to surrounding, East European, economies) affluence displayed in the cities, particularly in Slovenia, Croatia and the northern part of Serbia, belie the descriptions of "crisis" – still the indicators point clearly to deterioration unless reforms are made, and made to stick.

The new Government of Ante Markovic – who took over in March – continues the pro-market reformism of the Mikulic team: much of its legislation has been taken over from that government, and remains the same in general thrust, though sharpened up in detail.

The Prime Minister is attempting to tackle inflation by oblique rather than (as his predecessor did) by direct tactics: he has imposed no wage or price freeze, but relies on the market mechanisms which his reforms are aimed at stimulating to do the job for him, over time.

He has identified the root problem of the economy not in inflation, nor in foreign debt – but in bureaucratic interference in economic life, in lack of productivity and a low level of technical modernisation in enterprises and in the lack of power held by the federal government over the economies of the six republics.

These republics, very largely autonomous, have banks and enterprises which can issue their own "promissory notes" having the same effect as cash; and which in turn means – says the Prime Minister – that the federal government's control of the money supply is reduced to around 30 per cent of the total, and thus any attempt to tighten supply is doomed to failure.

There is room for considerable scepticism on the Government's aims: not because of its composition, which appears uniformly 'reformist': nor because of the Prime Minister's will to undertake reform, since it is manifest (see interview above). But – as officials *continually stress* – the uniquely autonomous role given to the republics, and the ability their governments have to delay or to veto change when it is seen to cut against their interests, means that packages of radical reform are more easily sidelined or destroyed than in other states.

The fact that the League of Communists, which in formal terms monopolises political power, has in effect become in the 1980s six nationalist parties with different interests and with different approaches to the federal economy means that the only trans-republican political medium can no longer operate to smooth out the differences.

'It seems hopeless but there are ways out'

This is and will remain one of the Government's largest headaches. Yet it has this going for it: that there is a formal consensus on market reforms: the Prime Minister had been careful to get agreement to his reform package before formally taking over.

His plans to deregulate the banking and commercial sectors, to establish a capital and labour market and to restore responsibility to the individual and the individual unit of production represent the hope he has of solving the conundrum he posed in his first speech as Prime Minister on March 16: "statistically observed our situation seems hopeless: but dynamically observed there are ways out."

Three months on, in a speech to the Yugoslav assembly on June 14, the Prime Minister commended his package of draft laws on enterprises, foreign investment, accounting practice, labour – and forthcoming laws on taxes and fiscal policy – as being consistent with the "imperative to enter the market system."

The Yugoslav version of socialism, then, would become both closer to western social democratic models, and closer in intention to the reform models now suggested by the leaderships of Poland, Hungary and to a lesser extent the Soviet Union: the "convergence" theory (proposed by, among others, Zbigniew Brzezinski, former US Secretary of State), under which communist and capitalist economies developed similar features, now seems to be vindicated, if belatedly.

Emphasis is placed on market pressures, and on enterprises and individuals accustoming themselves to them: yet at the same time, there is a recognition that the transition to a more fully marketised system will have casualties, and that there thus needs to be a better developed "safety net" than at present.

Also in common with Hungary and Poland is a recognition that reform begins and ends *at home*, and that the days of importing capital from the West with the never-fulfilled aim of paying for it by exporting goods have gone forever, leaving only the bills.

"The problem we have is not so much the lack of capital," says Mr Tomislav Popovic, director of the Consortium of Economic Institutes. "It is in finding profitable investments, and in attracting more foreign capital and joint venture partners."

Will the Government succeed in two of its most important, and contradictory aims – getting Government *out* of enterprises and imposing Government will on the republics?

The two aims are only apparently contradictory. The enthusiasts for a market system, though differing widely, agree that the common ailment of enterprises is interference by local or republican parties and administrative organs – sometimes to ensure that certain employment or investment aims are being met, sometimes for reasons of political patronage or straight corruption.

Professor Oskar Kovac, a former minister and adviser and now at Belgrade University's economic faculty, doubts that the intention can be fulfilled, in part because the political and administrative centres have a privileged place guaranteed in the constitution, in part because the League of Communists, as a monopoly party, will tend to have a determinant role, particularly in the larger enterprises. The aim, however, is to get the politics out.

The drive for greater federal control over monetary and fiscal policy, and to reduce barriers between the republics, is seen as wholly consistent with the pursuit of market objectives. Yugoslavia's decentralisation means that market processes are hampered – by differing tax rates, differing incentives to industry, differing terms for foreign trade and, in effect, different monetary policies.

In his speech, the Prime Minister recognised that he faced resistance to centralisation from the republics, suspicious always of an over-mighty centre, particularly now that they fear that centre will be dominated by – as they see it – a resurgent Serbian nationalism.

As inflation mounts, time for these reforms to take effect gets shorter. The sense of crisis can be used by the Government – if it can communicate to the wider society.

Printing money at the Yugoslav Mint in Belgrade. Inflation is now at least 200 per cent

Judy Dempsey says that the Serbs have gained a Pyrrhic victory over ethnic Albanians in Kosovo

Milosevic plays the nationalist card

Ethnic Albanians demonstrate in March against a vote by the Kosovo Parliament calling for constitutional changes curbing self-rule

Near Titova Mitrovica, Kosovo, an Albanian rolls a hand-made cigarette

SIX HUNDRED years ago this month, the Serbs were defeated on the Fields of Kosovo by the Turks. It was a traumatic experience for the Serbs who had long regarded Kosovo as the cradle of their civilisation.

Mr Ivo Banac, a respected historian, has gone as far as to describe that defeat as "an event that had no equal in the collective memory of the Serbs."

As in Eastern Europe, history plays a crucial and potent role in national consciousness in the Balkans.

The Orthodox Serbs had built their spiritual Empire in Pec, the see of the Serbian patriarchs which is set deep in Kosovo.

From there, Emperor Stefan Dusan (1331-1355) ruled an empire which stretched as far afield as Hungary and Slovakia and across to western Macedonia and to Lake Ohrid, still regarded by Serbs as sacred lands.

Thus, it was not surprising that when the Serbs re-entered Kosovo in 1912, "they felt they were once again ascending to Jerusalem."

But what remained of Serbian culture was fragmentary. The region – rugged, mountainous and poor – was by then inhabited by ethnic Moslem Albanians who, over the centuries, had established their own culture and identity in the region.

The Serbs tried to catch up on lost time by ruthlessly re-imposing a Serbian character on the region. After 1918, Albanian schools were shut down and Serbs were encouraged to colonise Kosovo. By 1940, over 154,300 acres had been seized from Albanians, of which a third was given to Serbian settlers.

This harsh rule meted out to the ethnic Albanians persisted in the post-war period. Mr Aleksandar Rankovic, Tito's notorious right-hand man, ruled not only Kosovo but other parts of Yugoslavia with an iron hand.

His fall in 1966 unleashed years of pent-up frustration by the ethnic Albanians, who took to the streets demanding their rights. Tito responded by granting them their own language schools, books, newspapers and culture. This new-found confidence of the ethnic Albanians was sealed in the new Constitution of 1974.

In one clean sweep, Tito, with the aim of containing Serbia's domination of the Yugoslav Federation, carved two provinces out of Serbia: Vojvodina in the north and Kosovo in the south.

Although both were constitutionally linked to Serbia, they had almost the same rights as the other six republics – except for the right to secede from the federation.

However, this vast explosion of ethnic Albanian identity and political power, symbolised by the extraordinary surrealist building of the University of Prishtina, went beyond Tito's goals.

In 1981, young, unemployed and educated ethnic Albanians, some of whom were imbued with the spirit of nationalism and separatism, rebelled. But this time, the slogans were separatist. The Yugoslav authorities sent in the army. Thousands of Albanians were arrested and imprisoned. The province, punctured by periods of cyclical violence and recriminations, once again settled down to an uneasy co-existence with Serbia.

That co-existence, however, proved not only fragile, but became a malleable tool for Mr Slobodan Milosevic, now the President of Serbia.

As a means to gain power over the party leadership in Serbia, and also to undo the perceived injustice to Serbia in the 1974 Constitution, he rallied the Serbs behind him.

Last year, month after month, tens of thousands of Serbs, inspired by Mr Milosevic, an arch populist and a fantastic orator, held mass demonstrations. Carrying portraits of Mr Milosevic and chanting "Slobo, Slobo", interspersed with "Let us march on Kosovo", they won the fight to amend the 1974 Constitution and bring Kosovo and Vojvodina back into the Serbian fold.

The Serbs took to the streets, chanting 'Slobo, Slobo'... yet their Kosovo victory has deeply divided the Yugoslav federation

It was, to say the least, a bloody fight. Rather than use political institutions to articulate their cause, the Serbs used the streets to win back the Fields of Kosovo.

The ethnic Albanians resorted to demonstrations and strikes to demand the return of their autonomy. In the event, 22 ethnic Albanians were shot by the security forces. Mr Milosevic may have won back Kosovo for his Serbs, but the victory, for the moment, remains a Pyrrhic one.

It remains so because the battle for Kosovo has deeply divided the Yugoslav federation. Slovenia, the liberal republic tucked up in the north of the country, openly criticised Serbia's methods in Kosovo.

The response from Belgrade was bizarre. The Serbian Writers' Union broke off relations with the Slovene Writers' Union.

To exacerbate tensions between the republics, Albanian intellectuals remain unable to ventilate their grievances in the Serbian media or with the Writers' Union in Belgrade. Instead, they use the Croatian and Slovene media to explain what is happening.

Their accounts make grim reading. In order to consolidate Belgrade's hold on the region, the newspapers in Kosovo have become virtual mouthpieces for Mr Milosevic's policies. Those who do not toe the line are expelled from the party.

Nine journalists from Rilindja, the ethnic Albanian daily, have been expelled from the communist party. Intellectuals have been either sacked from their jobs or received severe warnings. Hundreds remain in prison. The Kosovo party, now led by Mr Rahman Morina, has lost all confidence among the ethnic Albanians. Mr Morina is regarded as a Milosevic man.

But now that so-called historical injustices have been redressed, the question remains what Mr Milosevic wants to do with this unhappy province.

Persuading patriotic Serbs to return is almost certainly bound to fall on deaf ears. Unemployment, hovering at 40 per cent is no incentive, nor is the chronically under-developed infrastructure. An injection of capital, judiciously applied to joint ventures, could help. But Serbia in particular, and Yugoslavia in general, is strapped for cash.

"We have no idea what Milosevic plans to do with Kosovo," say party officials from Slovenia, Croatia and even Serbia.

As Mr Milosevic ponders the future development of the province, tens of thousands of Serbs will commemorate the Battle of Kosovo. Some Serbs believe the battle has been now won. Other, more reflective Serbs are not so sure. Rebuilding any confidence between Serbs and ethnic Albanians will take years.

"The only way to weaken this appalling nationalism is to foster democratic political institutions," an Albanian sociologist commented. So far, Mr Milosevic is intent on playing the nationalist card. It is, however, a card which could destroy the integrity of Yugoslavia.

Spotlight on Slovenia's move towards democratisation

Long, hot summer of polemics

GREGOR GOLOBIC pulls no punches. Politically, he knows what he wants. As one of the leading members of Slovenia's youth movement (Mladine), he has been pushing for greater democracy, not only in the party, but outside it. He wants more political pluralism. His goal is parliamentary democracy.

Mr Golobic is a mere 25 years of age. But sitting with him in Mladine's offices in the centre of Ljubljana, you can feel the burst of energy coming from Slovenia's younger generation.

In many ways, the youth movement, armed with Mladina, the provocative, stimulating weekly, has been instrumental in creating room for groups which in the past had no platform on which to articulate their views.

These include the greens and the farmers, homosexuals and the women's movements. They tried to organise themselves as separate groups within the Socialist Alliance of Working People of Yugoslavia (Sawpy). But this movement in Slovenia remains somewhat "unreconstructed."

Instead, the youth movement, which must also be organised under the umbrella of Sawpy, opened its doors to all kinds of independent-minded groups. The result: a flood of ideas. The effect: greater ability to push the Republic's communist party towards greater democratisation.

The party could have closed its eyes and ears to these young people, who are but a stone's throw from the influences of neighbouring Austria and especially Italy.

After all, during the 1960s and early 1970s, Slovenia's communist party was no great bastion of liberalism. Writers were imprisoned. Newspapers were censored. Journals were confiscated.

But over time, the party relaxed and today is probably one of the most liberal organisations in Yugoslavia, if not in some parts of Eastern Europe.

The one man who has shaped the ideology and outlook of the party has been Mr Milan Kucan.

He is no orator, no populist, no demagogue. Instead, he has painstakingly set upon a course of "humanising" the party.

He has, for instance, subjected it to multiple candidate elections. He has opened sessions of the central committee to the public. He has joined open-air discussions with the independent political groupings. In short, he has not only advocated, but slowly put into practice, greater political pluralism.

In some ways, the path was easy. Slovenia, with its tiny population of 1.9m people, is very much a homogeneous society, equipped with its own language and culture.

Tucked within the Alps but with access to the Adriatic, its cultural and political experiences emanated from the Hapsburg Empire.

Not that those experiences were democratic. Rather, like other countries in Central Europe under Vienna's control, particularly Hungary, the political structures consisted of a strong state and a fledgling civil society.

In both Hungary and Slovenia, the bourgeois liberal classes were neither strong, nor organised enough, to push back the frontiers of the state and create genuine independent or autonomous institutions such as the judiciary and the courts, crucial components for strengthing a civic culture.

Nevertheless, after the collapse of the Empire in 1918 and the subsequent creation of the Kingdom of the Serbs, Croats and Slovenes (which preceded the creation of Yugoslavia), Slovenia's political goals become more sharply defined.

Their politicians, a hotchpotch of agrarians, Catholic populists and social democrats, fought for one issue: autonomy within a federation.

In 1920, the programme of the Slovene People's Party explained what it meant by autonomy:

"The autonomy of a province or a land consists of the following: that the supreme provincial authorities have immediate, highest and supreme power of decision, and authority in political, economic, educational and financial questions.

"When a state has autonomy, it also has the right to issue regulations for these affairs, to decide in these affairs according to its own consideration and reason and to have no master over it in these affairs."

And it added: "the Slovenes would not be commanded by incompetent and headless Belgrade officials."

Slovenia fought for this difficult marriage between autonomy and a federal Yugoslavia.

But, as if history has come full circle, these same arguments are once again dominating Slovene politics.

At issue for the Slovenes is the future direction of the Yugoslav communist party.

Because Yugoslavia's federal party is so fragmented, the individual parties in the six republics have retained a certain autonomy.

But now that major economic reforms are on the agenda, the party leadership is looking for a political system (under the aegis of the party) which is compatible with these economic measures.

Slovenia has no doubt which direction the party should head. As its own economy becomes more flexible, Slovene economists and party officials believe the party "must go to the market" as well.

"As we have a competition and market of ideas for the economy, so we must have one for politics," says Mrs Sonja Loncar, a member of Slovenia's central committee.

Many Slovenes agree with this. But the problem is that changes in the party rules on the republican level require changes on the federal level.

This has caused immense problems for the Slovenes. Southwards, the republic of Serbia, whose party leadership remains entrenched in an orthodox communist ideology, continues to criticise Slovenia for its political views and particularly its attitude towards political pluralism.

Indeed, it now appears that Serbia is preparing to drum up support to block fundamental and necessary political reforms in a party congress which is due later this year.

For the Slovenes, this would make economic reforms unworkable. But above all, the Slovenes' greatest fear is the rise of a strong, nationalist Serbia which would come to dominate the Yugoslav Federation.

Mr Kucan has already said in no uncertain terms that Slovenia would not be part of a Yugoslavia in which "political and nationalist forms were forced on it," a direct reference to Serbia.

If Slovenia were to withdraw from the federation, the consequences for Yugoslavia would be, to say the least, unpredictable. If Yugoslavia does not introduce radical political reforms, say the Slovenes, the country's future will be undermined.

The debate, which could be resolved at a party congress due later this year, has only just begun. Slovenes are preparing for a long, hot summer of polemics and arguments with their southern neighbours.

Judy Dempsey

FOREIGN POLICY

A push to the West

YUGOSLAVIA IS re-orienting her foreign policy – not as dramatically as her Eastern European neighbours, but in ways which may construct a new mould within which her policies will be constrained. The new directions are:

■ The rapid lessening of East-West tension, bringing in its wake the need to reassess Yugoslavia's position as one of the leaders of a "third way" between warring blocs – especially as a leader of the non-aligned nations.

■ Equally rapid reform movements within the Polish, Hungarian and (in a different way) Soviet Communist parties throw into sharp relief the relative conservatism of the country's League of Communists – once seen as the most liberal of ruling Communist parties.

■ A recognition in the present Government that the orientation must be westwards, specifically towards the European Community – and the beginning of study and debate about the possibility of an eventual bid for membership.

Yugoslavia had, since the early 1950s, sought to use the non-aligned movement of which it was the founder as an active force in international relations – but one which renounced what it characterised as the aggressive and neo-colonialist tendencies of the superpowers. It has been a difficult act: among the main pressures upon it are the contradictory needs to avoid over-dependence on a West which has supplied capital, and a slide into denunciatory rhetoric of the West, which Cuba, among the non-aligned, sought to promote within the movement.

Today, as hotel buildings rise at record speeds in New Belgrade to house the delegates to the non-aligned conference there in September, policy analysts and ministers concede – though not publicly – that the forum has less use now that the need for tight alignment to irredeemably hostile patrons is fading. Tito's creation is still not likely to be challenged fundamentally in a country where few politicians or bureaucrats (or cafes) are without their portrait of the Marshal: but as the cult is gradually being nibbled at, so the edifice will become less important, even in formal terms. In real terms, the action has already moved elsewhere.

It has moved in part to Eastern Europe, where Yugoslavia, as much as the capitalist countries, must come to terms with the implications of change. It has, since the death of Stalin, managed to keep reasonably good (if occasionally polemical) relations with most East European states – disturbed by such incidents as the capture, and subsequent murder, of Imre Nagy, the Hungarian Prime Minister, on his departure from the Yugoslav embassy in Budapest after the 1956 Soviet invasion. But it has always been rather superior to them, regarding their dependence on and copying of the Soviet Union as a sign of their ideological and political weakness.

Now, many in its political elite are forced to concede that the reform parties are in advance of the League of Communists in the matter of political liberalisation, and that the pressure for change along – especially – Hungarian lines will be very great. Already, in the Slovene and to a lesser extent the Croatian League of Communists, the calls for political pluralism are growing (supported by the leadership in Slovenia), and the examples of Hungary, Poland and even the Soviet Union cited.

This "socialist emulation" no longer carries with it any threat of coercion: a visit from President Gorbachev last March – five whole days – was reported as a friendly and open one, underscoring that the Soviet Union no longer regarded its system as a model. The "threat" is from below, as the citizenry sees the greater freedom of speech and action enjoyed by those they once thought of as relatively inhibited.

The Yugoslav push to the West stems from concerns – common to all eastern European economies – that the 1992 process will block off their exports and tend to isolate them in a technically backward, relatively impoverished *cul-de-sac*. It is in a better position – more open economically for longer, with a better (if still relatively inefficient) infrastructure and greater expertise in foreign economic relations.

But Yugoslavia lags badly behind all West European countries – as Dr Tomislav Popovic, director of the Consortium of Economic Institutes, wrote in the Review of International Affairs in March, it trails "in all the important parameters – economic growth, structural adjustments (declining investment, productivity and capital formation), market stability and exports...Yugoslavia is a prisoner of the past...of the absence of the combined action of market mechanisms and political democracy."

Dr Popovic heads a team now studying the process through which the European economy would have to pass in order to "ready" itself for eventual European integration.

Like other members of the Yugoslav political elite, he is aware that the Community does not wait for its accession: that the political and economic transformation would be vast – the more so since Yugoslavia is a member of Comecon, with strong trading links with the Soviet Union (with which it runs a very large surplus); and that many, probably most, politicians have barely thought through the possibilities, let alone the consequences.

Yet, says Professor Oskar Kovac, a former Government minister, "we must convey the message to the Europeans that we ultimately see ourselves with them. Many conditions have to be fulfilled, but if this economic reform can be pulled off, it will make us much more compatible with European economies and with European structures."

There is a larger "but" hanging over this perspective, as it hangs over all political change in Yugoslavia. The existence of six autonomous republics, and the weakness of Government at the federal level, means that Yugoslavia would, if it were to apply for EC membership in its present form, bring in six rather than one decision centres, each with a "natural" tendency to form its own relationship and make its own deals with Brussels. Even if the economic issues were capable of solution, this fundamental fact of Yugoslavian political life would tend to make European politicians and bureaucrats alike draw back in caution.

Foreign affairs have been, traditionally, the one preserve of the federal government. Now directions are changing, it may be able to use a new alignment as a lever on domestic change – as Hungary and Poland seek to do – by arguing that structural change is essential for a re-orientation towards the Community. That consensus will be no easier to achieve than any other in the country, but it is now in the political air.

John Lloyd

Judy Dempsey looks at the reform of the country's banking system

The National Bank gets some clout

THE BANKING system of Yugoslavia is undergoing one of the most far-reaching reforms since the Second World War.

But while some of the reforms will lead to the creation of a capital market, bankers believe other changes will be "complex and painful."

The reforms, designed to invest the National Bank of Yugoslavia with far greater powers and a wider degree of independence, go in tandem with the phasing out of the "internal" banks.

This will have two effects. Enterprises will in future have to stand on their own feet. But of greater significance, political influence will be watered down in the day-to-day running of the banks.

That, at least is the hope of Mr Vukasin Markovic, who is one of the vice-governors of the National Bank of Yugoslavia (NBJ).

His view, shared by other bankers, is that in the past, enterprise directors had far too much say in the banks.

This was hardly surprising under the outgoing system, whereby enterprises could set up banks within their own enterprises.

Predictably, the directors of these large enterprises were on the banks' boards. As a result, they could grant themselves credits at very low interest rates.

These internal banks, as they were called, were founded on the reserves of the enterprises. But experience has shown that in many cases, many of those same enterprises were themselves in debt. In effect, they ended up drawing on their own banks, which in turn had to borrow from other banks.

The example of the scandal surrounding Agrokomerc, the giant food-processing enterprise in the republic of Bosnia-Hercegovina, serves as a poignant reminder to Yugoslav bankers and economists of the necessity to push through these radical measures.

During 1987, Agrokomerc issued unbacked promissory notes worth Dinars 50,000bn, a move which precipitated the discussions to reform the banking system.

"The problem was that there were no checks and balances built into the banking system," says one official from Agrokomerc.

The National Bank of Yugoslavia, Belgrade

Now the NBJ proposes to remedy that. Yet at the same time, Mr Markovic recognises that the break-up of the internal banks will cause problems.

Enterprise directors could give themselves credit at low rates

For one thing, enterprises will no longer have easy access to credits. For another, some are expected to go bankrupt.

However, as the internal banks are phased out, the NBJ is planning to introduce a new system, which it will monitor tightly.

New banks, authorised by the NBJ, will be set up but on the basis of fulfilling two conditions. First, the minimum capital formation should be Yugoslav Dinars 20bn (US$150m). Second, at least 10 enterprises should contribute to this start-up capital.

Some sceptics argue that these new banks would soon become "manipulated" by the enterprises.

Not so, says Mr Markovic. The idea is that the banks' board of directors would not consist of the enterprise directors but of bankers.

"This time, the assembly of the bank will no longer be able to authorise credits or pass decisions – that is, business decisions," says Mr Markovic.

"The assembly will nominate an executive board. But their powers will be reduced," says Mr Markovic. "The founders of the banks will no longer be able to grant themselves credits. These banks will not be money supermarkets."

Moreover, to keep a check on large borrowing from the enterprises, the NBJ is now proposing a law whereby no more than 20 to 50 per cent of the total reserves can be borrowed.

The NBJ reckons there will be some teething problems between the break-up of the internal banks and the introduction of the new banks. It expects some of the internal banks to go into receivership, while others could merge with bigger banks.

Indeed, Mr Markovic is anxious to point out that in future, the NBJ will have no qualms in calling in the receivers if banks cannot meet their obligations to clients on three consecutive days.

Another radical reform on the agenda is the plan to issue shares which will eventually lead to the creation of a securities market.

One of the aims would be to mop up the huge amount of savings in the country. But it would also make funds more mobile, it is thought.

"We have to have mixed capital for the social and private sector," says Mr Boris Konte, a vice-governor of the NBJ. "Since that is the case, we also have to gradually build up a securities market whereby the enterprises can issue or trade in their shares."

Indeed, Mr Markovic and Mr Konte even envisage the setting up of private banks, in which 99 per cent of the total capital could be held in private hands

On the agenda is the eventual creation of a securities market

Both bankers believe the new laws will be ready to be implemented by the end of the year. Both recognise the difficulties involved. But with greater independence granted now to the NBJ, they reckon the Yugoslav banking system is slowly but surely stepping on to sounder ground.

John Lloyd looks at the key to reform of workers' self-management

Removing barriers between workers and the market

WORKERS' self-management has been put at the core of Yugoslav socialism: the guarantee both that it will not lapse back into Soviet bureaucratism, *and* that it will develop a more direct and powerful version of democracy than the multi-party systems of capitalism, which Tito saw simply as reflecting class antagonisms.

He described it as a "system where the producers themselves manage the means of production and participate in the management of the economy." Edvard Kardelj, from the war till his death in 1979 the main defender of the party line, contrasted the Soviet command system which "made every individual person and every working collective the blind executor of mysterious technocratic plans frequently and essentially unknown to the people at large" with the Yugoslav system, where "the working man and the work community of which he is a component part (is placed) as fully as possible in a position enabling him to influence his working conditions..."

It is a tribute to these ideas that, as the command economy is widely discredited within reformist Communist parties, workers' self-management retains a certain hold on most strands of opinion within Yugoslavia. But it is now set to change fundamentally: and an early judgement should be made as to whether it is likely to attain a new and more efficient state of development (as many claim) or to mutate into a system with similarities to co-determination and other forms of workers' participation in the West – forms which co-exist relatively easily with, even where they modify, the workings of the capitalist company.

In the political and policy debates of the 1980s on the causes of Yugoslav economic stagnation, problems and contradictions within the self-management system were identified.

These included: a lack of workplace discipline; a "monopoly on jobs", that is, no-one could be fired; the dilution of the system as originally conceived by constant intervention by local and republican party and administrative bodies; management becoming increasingly unaccountable to the workers and to consumers; a system of "ownership" in which, since everyone owned everything, no-one owned anything and thus responsibility tended to be passed about; and enterprises treated as little social microcosms, expected to act as welfare and housing agencies as well as businesses.

The way in which these problems have been couched – necessary because of the ideological restrictions on debate – has been to claim that the self-management system as originally conceived worked well, but was bureaucratised in the 1960s and 1970s. Dr Tomislav Popovic, chairman of the consortium of economic institutes, says that "politicians and managers simply avoided real market pressures. The consequences of that were that we have failed to give workers the industrial culture which they have in developed countries".

"The Yugoslav system, where 'the working man and the work community of which he is a component part (is placed) as fully as possible in a position enabling him to influence his working conditions'..." The picture shows coal miners in the Kolubara Mine, near Belgrade

Workers cast their votes in elections for self-managing bodies at the ITM factory near Belgrade

A system of 'ownership' in which, since everyone owned everything, no-one owned anything

The key to reform has thus been seen as removing the barriers and shields which separated the workers from the market – and to expose them to its pressures and needs. The new labour law (which replaces the associated labour law), the enterprise law and the law on accounting procedures are wholly or in part aimed at this goal.

The main measures are:

- to restore workplace discipline by making it easier – in effect, possible – for management to hire and fire, to move from one job to another and to change job specifications.
- party and administrative organs are formally prohibited from intervening in enterprise decisions.
- there is to be a clear delineation between the general running costs of an enterprise and the cost of labour.
- wages are to be divided into two components: a basic wage, below which pay cannot sink; and a profit-related bonus – an idea borrowed from Japan.

Dr Juri Bajc, an economist working for the Central Committee of the Serbian League of Communists, says: "The market in labour has been more or less accepted." This claim means that a fundamental shift has occurred, or is about to. If labour – as is now claimed – is to become a commodity, with its tenure on a job dictated by efficiency which in turn is judged by a relatively autonomous management, how is it deemed to be "self-managed"?

The answer given is this: that since the buffers surrounding enterprises will be stripped away and it will become clear that success on the market is its only hope of survival and growth, the workers' council in each company will realise that it is on profits which their standard of living will depend. They will thus appoint and back managers who take all rational steps to promote the efficiency and profitability of the enterprises – including better discipline, firing the inefficient who are a drag on the rest and promoting better training, higher quality and a more consumer-directed posture.

It does not, to western ears, sound like the kind of thing of which the trade unions would approve and at first, they did not. Mr Zvonimir Hrabar, a former president of the Confederation of Trade Unions and now a member of its governing council, says: "The members saw it in a negative way – as leading to redundancies. In part, we were to blame for this, because that's how many in the leadership saw it."

Remarkably (for the western conception of a trade unionist) he adds: "The problem of all socialist countries has been that a job was guaranteed whether or not the worker is up to it.

The first steps have been taken. If this reform does not take root, much else in the economic and social programme fails, too.

"Now, the management will have more responsibilities and more authority – but so will the workers' council. They will be able to fire him if he doesn't perform. That should have been the case before but in practice it wasn't."

Further, the unions see the changes as a possibility – or a necessity – for them to renew themselves. A bureaucratised system of workers' control meant that they had few functions beyond a general educational one: bargaining was out, since the workers' councils themselves determined – at least in theory – wages and conditions. Now, with the intended growth of the private and mixed sector, collective bargaining will spread – even, thinks Mr Hrabar, into the "socially owned" sector.

This has meant that the unions themselves are changing their structure, going out to their members, trying to trim away their own bureaucratic encumbrances, seeking full independence from the League of Communists by which they have been – and still to an extent are – dominated. (Nearly all officials, and all higher officials, are league members).

The pace of change in decentralised, federally weak Yugoslavia is slow and spasmodic: and on a matter as fundamental to the state's self-definition as this, it will be at least as slow as usual. We have described potential, rather than actual, change. Critics of the economic reform, such as Dr Oskar Kovac of Budapest University (a former Government minister and adviser) believe the measures are still too vague and contradictory, and that foreign capital – on the need for which there is a consensus – will demand further clarification before trusting the law.

But the first ideological and legal steps have been taken. If this reform does not take root, much else in the economic and social programme falls, too.

EXTERNAL FINANCE

Stand-by deal with IMF supports World Bank loan

BY THE time this survey appears, Yugoslavia should have reached agreement with the International Monetary Fund, and the World Bank, on their relations in the years to come. The centrepiece is a new 18-month stand-by arrangement with the IMF, involving a *$500m credit to be paid in* tranches, and supporting arrangements and understandings with the World Bank.

The Bank is ready to increase lending to Yugoslavia to the tune of $600-800m a year. Half of that would be project financing, while the other half would be used to consolidate the country's financial system. Yugoslavia will get a new structural adjustment loan of $300-400m in two tranches, in September of this year and early next year.

The first structural loan, of $275m some five years ago, has been a success. With recycling, it has contributed more than a billion dollars to financing export-oriented programmes of Yugoslav firms.

As its political leaders stress, the country has no urgent need of the stand-by credit: the arrangement has other aims than simply the use of the half billion dollars. First, the Paris Club and commercial bank creditors as well as the World Bank insisted on the Fund giving the green light for their future arrangements with Yugoslavia. Second, demands in the country itself to leave monetary, credit and other policies loose instead of tightening them in order to fight inflation can be better resisted if the Government has to honour international obligations.

The external financial situation of Yugoslavia has improved considerably in the last few years. The current balance of payments has shown increasing surpluses since 1983 (see table), and it is already clear that that will be the case this year as well.

Reserves have also been going up in recent years, so that at end-1988 they stood at $3.3bn. They could increase to nearly $5bn by the end of this year.

Debt servicing had been a serious problem until last year, when rescheduling took place with commercial banks and the Paris Club (plus Kuwait). That reduced its ratio from over 40 per cent of export earnings to some 23 per cent, which is seen as bearable. Yugoslavia's external debt amounts to some 40 per cent of its social product, which is less than in most other heavily indebted countries. Hard currency debt equals some 130-140 per cent of annual hard currency earnings, also better than in many other debtor countries in the same group.

Current balance of payments (in $m)

1981	1982	1983	1984	1985	1986	1987	1988
-750	-464	274	504	833	1,100	1,248	2,400

At end-1988, Yugoslav hard currency external medium and long-term debt amounted to $17.77bn. Out of that, $4.258bn was debt to international financial institutions ($1.513bn to the IMF, $1.844bn to the World Bank, and $901m to others, as the European Investment Bank), $5.88bn was debt to the Paris Club countries and Kuwait, $7.16bn debt to commercial banks, and $468m to other creditors.

The market value of Yugoslav debt has started going up

Paris Club countries rescheduled the debt (with the cut-off date of December 1982) to June 30 of this year, and commercial bank creditors to 1996 (the cut-off date was January 17 1983). Debt acquired after the cut-off dates has been regularly repaid, so that the total was reduced from $19.1bn at end-1987 to $17.77bn.

Other countries owed Yugoslavia close to $3.3bn at the end of 1988. In theory, that means that Yugoslav net debt amounted only to some $14.5bn. However, there have been serious problems in persuading some debtors to pay their debt, both the principal and interest, so that the real value of the country's claims is much below the nominal amount.

Yugoslavia has accumulated very large surpluses with the Soviet Union, amounting to some $2.4bn. That is in addition to the $3.3bn that other countries, mainly less-developed countries, owe Yugoslavia.

Short-term credits taken abroad were reduced from $1.3bn to $1.1bn between end-1987 and end-1988. So far this year, they have been further reduced by some $380m. That is not likely to continue, although it had been projected that they should be reduced by a total of $740m this year.

External debt has in part been reduced through various debt conversion schemes, like debt for equity and other swaps.

So far, some $400m has been converted. However, only smaller banks have been prepared to sell Yugoslav debt below its face value (mostly at 44-48 per cent). Larger banks still hope to recover most of it.

With confidence rising since Mr Ante Markovic, the Prime Minister, formed his cabinet and began to introduce reforms, the market value of the Yugoslav debt has started going up and investors will have to pay more for it.

Yugoslavia still hopes that *the Brady Plan or similar* schemes may help it in reducing the debt burden. To most observers however it has been clear that Yugoslavia is low on the priority list, Latin American countries being first. So it will have to wait for attention.

Yugoslavia does not, however, intend emulating Romania and paying off its debt at any cost, even at the expense of its future development. On the contrary, it wants to get fresh money to finance new investments in manufacturing and other industries, infrastructure and other fields. It will not shy away from taking financial loans but it clearly favours direct investment in joint ventures, fully owned foreign firms, or concessions for road construction.

Aleksandar Lebl

FOREIGN TRADE

Imports on the rise; exports growth below expectations

YUGOSLAVIA HAS been liberalising imports, as it has prices, the foreign exchange market and other areas. When that process started last May, only 11 per cent of imports were free. By this month that had gone up to 65 per cent, and it will continue that way. In the first five months of this year compared with the same period last year, total imports increased by 10.7 per cent, and imports paid for in hard currency by 20.5 per cent.

That has been one of the most significant changes recently. It has somewhat reduced the hard currency exports-to-imports ratio, from 102.4 per cent to 87.4 per cent, but it produced beneficial effects. Manufacturing industries have been well supplied with imported raw and intermediate materials, which enabled them to increase output and their own exports.

Two other important targets have not yet been met: to increase substantially imports of equipment so as to speed up the modernisation and restructuring of the economy, and also to import more consumer goods and thereby create efficient competition for domestic industries, which often enjoy a monopolistic position in the Yugoslav market. Both registered some growth, but it was not enough.

As can be seen from the table, exports have been increasing as well, although not at the desired pace. Still, what with export growth and with invisible earnings, the current balance of payments will have a surplus this year as well, perhaps not as much as projected late last year. In view of rising debt servicing cost, due to higher interest rates, as well as the somewhat higher than expected hard currency trade deficit($1.775bn instead of $1.585bn) projections will have to be slightly revised.

Trade results could be viewed in an even better light. In the first months of last year, there was high growth in foreign trade, which naturally reflects in this year's rate of growth, while this year, the stronger dollar statistically "undervalues" Yugoslav foreign trade, by 4 per cent on the export side and 5 per cent on the import side.

The overall favourable picture has been somewhat marred by the fall of exports to the US, mainly due to reduced sales of ships and especially of Yugo cars. It is hoped that after Yugo America's house is put in order, sales will resume the upward trend of two years ago, with several new models.

Foreign trade is expected to yield even better results after new legislation in the external economic relations field comes into effect. It has been expected to be passed by Parliament soon. The legislation comprises a new foreign trade act, foreign exchange act, and external credit relations act.

Price increases and cost of living (%) May 1989

	May 1989-April 1989	May 1989-May 1988	Jan-May 89-Jan-May 88	May 1989-Dec 1988
Factory gate prices	125.00	866.7	633.2	279.4
Retail prices	123.4	701.6	533.2	259.4
Cost of living	122.7	644.5	496.4	244.9

Source:Federal Office of Statistics

As Mr Zivko Pregl, vice-premier in charge of the economic system, described them, these acts have distinctive characteristics from current law. They replace seven pieces of legislation, and comprise only half the number of articles. The number of by-laws accompanying them will be reduced by some 40 per cent. At the same time the quality and transparency will be improved. The underlying philosophy will be deregulation and the market approach.

In practice, that means that firms in all economic sectors – socially-owned, state, co-operative, private and mixed – will have the same rights to conduct foreign trade, and the same access to foreign exchange. Rates of exchange will be based on supply and demand, with the central bank intervening, especially in the initial period. Gradually, dealings in foreign currency by residents will be legalised.

So far this year the National Bank of Yugoslavia has purchased more foreign exchange in the inter-bank Forex market than it has sold. Some difficulties with liquidity at the start of the year have been overcome. The decision of the Federal Government to lift all restrictions on withdrawals of foreign currency from banking accounts that Yugoslavs have in local banks has stopped excessive withdrawals, and inflows again exceed withdrawals.

The major problem of Yugoslav foreign trade remains its large accumulated surplus, of some $2.4bn, with the Soviet Union caused by the drop of oil and gas prices. Remedial actions have been undertaken by both countries, which have been endeavouring to prevent trade from falling (Soviet exports have remained unchanged by volume but decreased by value). Restrictions on the Yugoslav side would be unpopular with industries and regions oriented towards the Soviet Union.

Part of the surplus, $550m, has been converted into a loan. Yugoslav firms have been trying to locate Soviet products which they could import. Also envisaged has been to offset part of Soviet credits to various Yugoslav firms for part of the Yugoslav surplus. The Soviet Union has introduced a special system of import licences for firms buying Yugoslav (and Finnish) non-strategic goods.

The Yugoslav Government has been introducing or considering measures both to discourage its exporters to the Soviet Union and importers from that country. The first group comprises a different determination of the exchange rate for the clearing dollar. Last year it was 5 per cent lower than the convertible dollar, while this year it will depend on supply and demand. The central bank will switch to paying for those dollars earned by exporters after 60 days, instead of immediately after presentation of documents, which has been highly inflationary. The second group, encouraging imports, comprises giving 60-day credits to importers, extending product lists for trade and some other measures.

The Belgrade Government would like to change the payment agreement so that all surplus going beyond the agreed credit is transformed into interest-bearing loans. In the long run it would like to end clearing and switch to hard currency payments. It is against administrative measures and resisted proposals to emulate the Soviet Union in that respect.

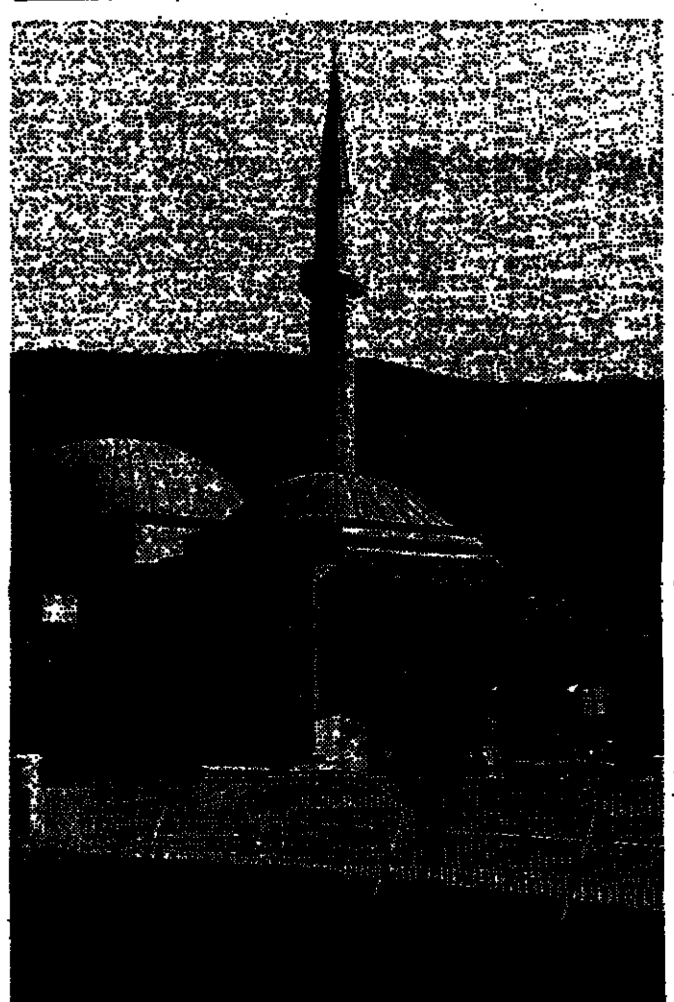
FOREIGN TRADE (in US$m)

	January-May 1988	January-May 1989	change (%)
Exports (total)	4,868	5,018	+3.1
Hard currency	3,724	3,830	+2.8
Balance	1,144	1,188	+3.8
Imports (total)	4,881	5,401	+10.7
Hard currency	3,636	4,383	+20.5
Balance	1,243	1,018	-18.1

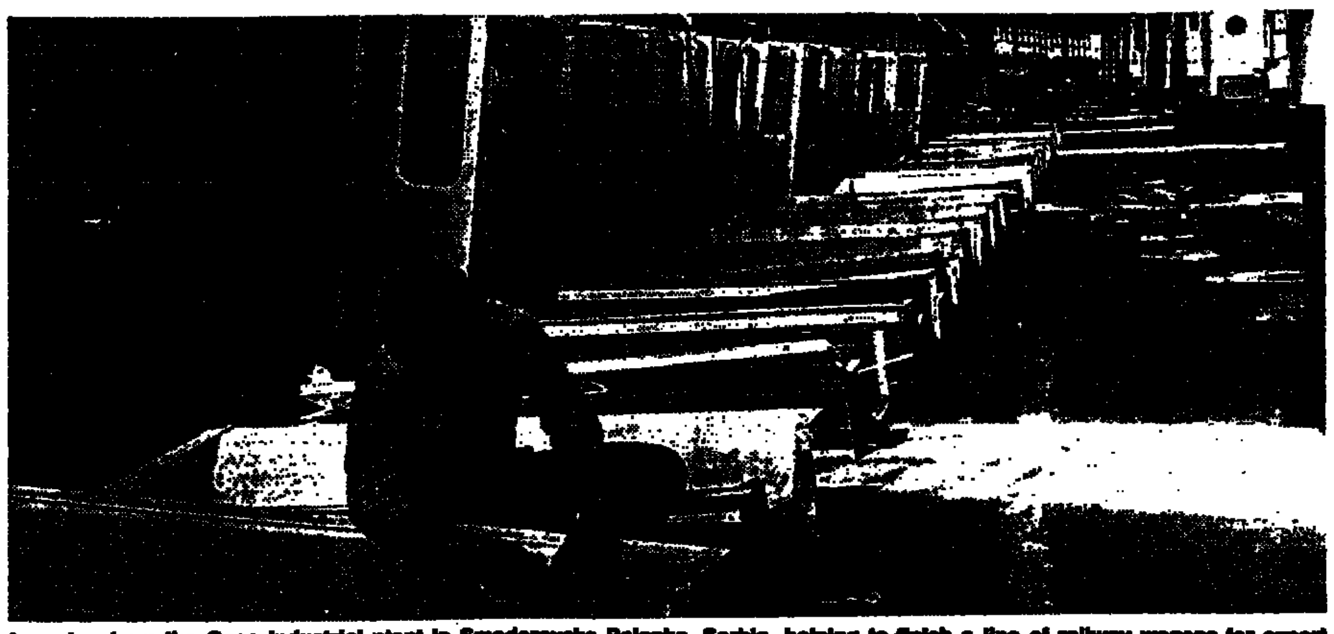
Mr Franc Horvat, the super minister for external economic affairs, told the Financial Times he believes that the new joint ventures act, passed at end-1988, will greatly contribute to the economic development of Yugoslavia, and especially to its exports.

He is, of course, aware that this piece of legislation cannot achieve that alone but only in combination with other new legislation and a fall in inflation. But he hopes that things will start changing for the better late this year, and certainly next year.

Alexsandar Lebl



The mosque at Sarajevo Paul Forster



A worker from the Goša industrial plant in Smederevska Palanka, Serbia, helping to finish a line of railway wagons for export

INDUSTRIAL OUTPUT

Cutbacks are on the way

SINCE LAST December, industrial output in Yugoslavia has been going up, after years of near-stagnation.

In the first five months of this year it was 2.1 per cent up on the same period in 1988, and in May it rose by 4 per cent. This has enabled Yugoslavia to increase its exports, while at the same time keeping the domestic market well supplied.

Mr Mieczislaw Rakowski, the Polish Prime Minister, after he strolled through Belgrade during a visit two months ago, reportedly said to his host, Mr Ante Markovic, that the Poles have money but nothing to buy, while the Yugoslavs can buy everything but have no money.

As far as the Yugoslavs are concerned, that is not quite true. Many of them have enough money to buy whatever they want. In fact, there is no problem in selling two categories of goods: basic foodstuffs and other essentials, and the highest quality and most expensive products, locally made or imported.

However, it is questionable for how long industry will be able to increase its output. Mr Markovic and his cabinet colleagues were jokingly offered the Nobel Prize for Economics if they succeeded in reducing inflation, at the same time as increasing production. Their critics accuse them of ignoring a basic tenet of anti-inflationary policy: that one cannot successfully do both.

In fact, the Yugoslav Government is well aware of the necessity to sacrifice growth in order to lower inflation and thus achieve sustained, stable growth. The only question is by how much growth will fall when biting reform measures are fully applied, which will be soon.

What Yugoslav industry badly needs, in addition to getting rid of inflation, is modernisation and restructuring. For that, considerable investments are necessary, whereas the country's capital formation is too small. Therefore foreign capital, preferably in the form of joint ventures, has been lured with promises of good profits.

One industry which has been short of capital although it has been a big foreign exchange earner is the textile industry. It is unlikely, however, to attract a large share of foreign investments, which are more likely to go to tourism, agriculture or electronics.

The Yugoslav textile industry accounts for 17.3 per cent of industrial employment, has a 10.2 per cent share in the social product, and some 9 per cent in total exports. There are more than 400 companies, with a labour force of 475,000.

All the indicators in the past couple of years point to its lagging behind the averages of Yugoslav processing industries. Rates of growth of output and exports have been lower, as has been the capital formation rate. At the same time, losses have been higher. The industry also has problems with raw materials, 70 per cent of which have been imported.

When the reforms start taking effect, many textile companies will go bankrupt. The industry's association within the Economic Chamber of Yugoslavia estimates that some 15 per cent will go to the wall. Some 10,000 workers a year could be made redundant.

The survivors will be better suited for competition at home and abroad. Even now, quite a few companies are competitive in the global context, including such difficult markets as the European Community and the US. Streamlining should improve their chances.

The industry hopes that industrialised countries will not put up new protectionist barriers or increase existing ones, as has been the case in the EC or the US. With them, as well as with some other countries, such as the members of Efta, Yugoslavia has signed agreements on "voluntary" export restrictions. Quotas have been established for Yugoslav imports in the EC (12 items) and the US (two in 1982, going up to 23 items in 1989).

Until a few years ago, half of Yugoslavia's textile exports were sold to Comecon, especially the Soviet Union. Now the ratio of exports to the West and East is about 2:1. The industry hopes to be able to maintain that or even improve on it. That does not depend on its efforts alone regarding quality, design, marketing and the like, but also on the goodwill of industrialised countries.

If the Yugoslav textile industry succeeds in increasing hard currency exports, it will be able to carry out its ambitious investment programme of some $1bn in order to modernise. And if that happens, a market will be created for exporting textile machinery to Yugoslavia.

Its own resources being inadequate to import raw and intermediate materials and equipment, the Yugoslav textile industry has started using its spare capacity and relatively cheap labour to process foreign partners' materials, and re-export the finished products. This "outward" processing traffic added $430m to its own exports worth $920m last year.

Aleksandar Lebl

Folk art, music, architecture: all appeal to the holidaymaker

A beautiful country, despite the scowling waiters

AT AN open-air cafe in the historic coastal town of Split, a family of West German holidaymakers contentedly watch the busy scene. "We've been coming here every summer for eight years now," says the mother, as her husband laboriously counts out a stack of paper money for the bill. "It's near, it's beautiful, it's unpolluted and it's cheap."

But it's not as cheap as it was on their first trip, as the pile of notes on the table shows. With galloping inflation, rising real prices and a widening economic gulf between the tourist coast and inland, Yugoslavia is losing ground against rival South European holiday destinations in Greece, Portugal and Turkey. But Yugoslavia will always have something special to offer: a great variety of natural scenery and cultures within its borders.

Split itself, on the Croatian cast, shows the traces of 17 centuries of continuous habitation by successive peoples. The late Roman imperial architecture of Diocletian's palace contrasts with the Byzantine influences of the 11th century and the twisted streets of the Middle Ages.

Along with the popular towns of Split, Dubrovnik and Kotor, there are over 50 historic centres on the eastern Adriatic coast.

Clustered on a narrow island promontory near Dubrovnik is the fortified medieval town of Korcula, in Montenegro. The settlement of Ulcinj dates back to antiquity, Trogir near Split offers a well-preserved medieval centre, while Rovinj boasts several fine baroque buildings. The Ottoman threat has left its legacy in the well-defended island town of Sveti Stefan. Only a short distance inland, the Mediterranean styles mingle with the Islamic influences that penetrated far westwards along the valley of the River Neretva. The most famous example is the Ottoman heritage of Mostar, with its distinctive bridge.

All one's frustrations with Serbian bus timetables melt away with the music

Besides the coast and ski-slopes, Yugoslavia offers an extraordinary juxtaposition of cultures from the Austro-Hungarian efficiency of the Slovenian north to the Serbian Orthodox rituals of the south. Unfortunately, this variety has turned the country into a brew of rival nationalist passions instead of a cultural melting-pot.

Above all, the upsurge of aggressive Serbian nationalism alarms the rest of Yugoslavia and the outside world. Of all the six republics, Serbia has received the most international censure in recent months. All the more reason to tour the nation of Serbia and to learn what makes it unique.

The visitor will soon find that behind the ugly face of nationalism lies a justified pride in a rich and enduring culture. There is the folk art, the religion, the architecture, but above all, there is the music.

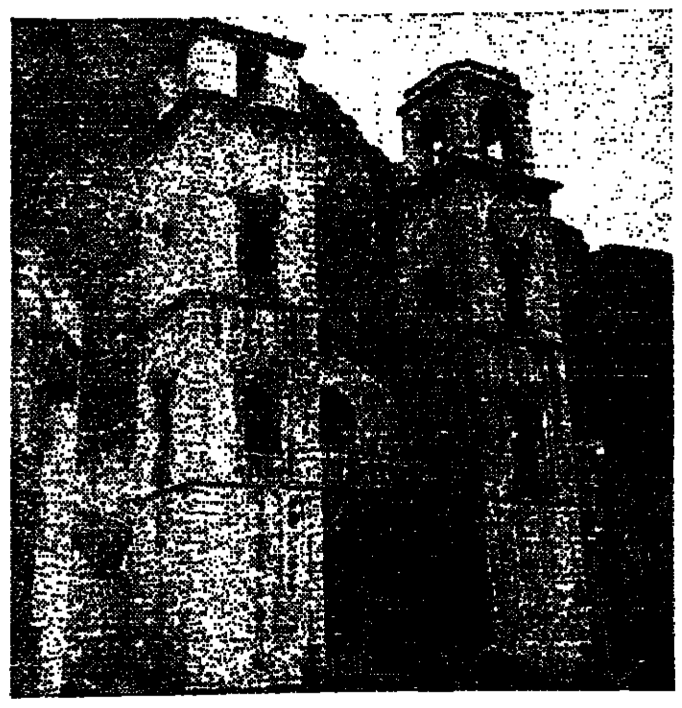
At a wedding in the east Serbian town of Pirot, the band of accordions and guitars plays song after song as the rowdy guests join in with the traditional words of love and battles. The music is a microcosm of Serbia herself and her turbulent history. The rhythms and harmonies bear the traces of successive cultural influences: Turkish, Central European and transatlantic pop music.

A group of gypsy musicians arrives in the smoky hall, with battered instruments and noisy arguments in the Romany language. The music superimposes an idiosyncratic nasal style of singing on Macedonian rhythms. Listening to the music late into the night, all one's frustrations with Socialist hotels and Serbian bus timetables melt away.

Yugoslav tourism flourishes thanks to the country's indigenous merits and despite the shortcomings of the tourist infrastructure. It certainly does not help, for example, when the telephones do not work, the electricity cuts off and the Montenegrin hotels double-book. The industry cannot afford to be too inefficient, what with rising real prices, increased foreign competition and a desperate need for hard currency.

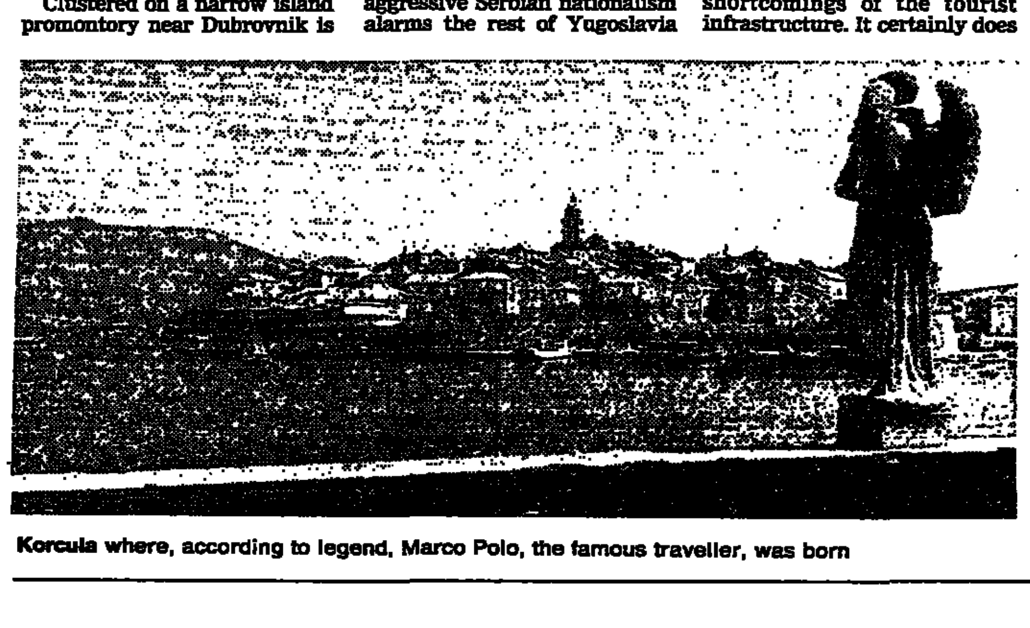
The West German family in Split complains about the unsmiling waiters and surly hotel clerks. The consumer will come last, as long as the socially-owned sector of the Yugoslav economy lacks the commercial ideas of profit and competition.

Joanna Newman



The ancient church in Kotor (picture: Trevor Humphries)

The beach at Budva, on the Montenegran coast



Korcula where, according to legend, Marco Polo, the famous traveller, was born

The Hotel Moscow, in the centre of Belgrade

TOURIST INDUSTRY

Foreign capital needed

THE YEAR appeared to open well for the tourist industry. The number of foreign visitors rose by 7.1 per cent, and they made 5.6 per cent more overnight stays, spending \$339.6m – 31 per cent more than in the same period of 1988.

But the first four months usually represent only 5 or 6 per cent of total annual overnight stays, while foreign exchange earnings from tourism in that period also comprise some payments received from tour-operators for services rendered last year.

Disappointment came with the June figures, which showed a downward slide on those earlier months. The first week was particularly bad, with 12 per cent fewer foreign visitors than in June 1988. After two weeks, that improved to some 6 per cent fewer foreign tourists. It is reported that bookings are falling off from several countries - especially West Germany, which is still the largest source of guests. This has introduced an element of uncertainty about the outcome of this year's tourist season.

Mr Franc Horvat, Federal Secretary for External Economic Relations, (who after the Federal Government reorganisation of last March is now in charge of trade, joint ventures and tourism) told the Financial Times that he hoped the season would not be worse than last year as far as the number of visitors is concerned – overnight stays in 1988 came in at over 52m – and that the country would improve on the foreign currency taken in from tourism, which was more than \$2bn officially and \$3.5bn, as estimated by the Tourist Federation of Yugoslavia.

The cause for concern, and the close watch on figures, is an index of the importance of the industry to the country's economy. Earnings from foreign tourists represent some 5 per cent of the aggregate social product of the country, and account for 10-12 per cent of total foreign exchange earnings. The industry provides jobs for some 3.5 per cent of the Yugoslav workforce.

It could do more, with more investment. By the end of the century, its foreign exchange revenue could triple if capacities were increased, quality improved (which would also justify higher prices), infrastructure built, and management and marketing recognised as key factors in the industry's development.

The industry provides jobs for some 3.5% of the workforce

For this year's season the Yugoslav tourist industry added only some 6,000 hotel beds. Sports and recreation facilities were also built and some improvements made in infrastructure - but still lagged far behind demand.

The main reason for this slow development has been a lack of resources. Now the authorities have started to attract foreign capital for direct investment not only in building tourist facilities such as hotels but also for infrastructural projects such as road construction.

Potential foreign investors have been more interested in tourism than in any other Yugoslav industry. Negotiations have been under way for the construction of several hotels both on the coast and inland, including some de luxe category hotels (Hyatt has a joint venture based on a debt-for-equity swap, and its hotel in Belgrade will be finished in under eight months, before the September non-aligned summit. It will be managed by Hyatt's own people).

Several foreign groups have been preparing feasibility studies for the construction of new motorways, especially along the Adriatic Coast as well as between the Austrian border south of Graz, and Zagreb. Concessions have been offered, which include not only the exploitation of motorways themselves but also of petrol stations, motels and other facilities alongside them.

Another field for investment of foreign capital has been marinas. Yugoslavia had a total of 35 marinas at the end of 1988 (33 in Croatia and two in Slovenia) with just under 10,000 moorings. Nearly 139,000 vessels – yachts, sailing boats and others – used them last year, 92 per cent under foreign flags.

Those of Germany, Italy and Austria prevailed, but there were also 4,592 British vessels. Some British subjects spend most of the year in their yachts moored in or near larger towns like Split, and have almost become their citizens.

Yugoslavia's coastline, with its many islands, means that many more marinas could be built and more vessels accommodated throughout the year. In 1988, marinas had a revenue of some Dinars 75.2bn (\$14.4m at the end-year exchange rate), of which 88 per cent went on foreign exchange. The potential for earning more is good.

Like other Yugoslav industries, tourism has to prepare for the single European market from 1992, and these new regulations which will flow from it: some 70 per cent of foreign tourists come from the EC. The country must build an integrated information system for hotel beds, travel and other information, and link it to the unified European system. It has to adopt a categorisation and classification system for hotels compatible with European standards.

Among other important considerations are the abolition of visas where they still exist, simplification of customs formalities, possibly introducing special "nothing to declare" road lanes at the border, introduction of health insurance policies for tourists, assuring re-transfer of dinars exchanged for foreign currency and the provision of off-season rebates for transport of foreign tourists.

Aleksander Lebl

ACCOUNTANCY COLUMN

Perk on wheels softens blow of low pay

By Michael Dixon

WHERE in Europe do financial managers have the best earnings prospects?

As with all broad questions of pay, a definite answer cannot be found. But clues are appearing as organisations which conduct salary surveys extend their studies in anticipation of a growing demand for information on pay rates throughout Europe from 1992.

The latest example – and source of the accompanying table – was published this week by the European Remuneration Network. The network is a new consortium of seven consultancies based in, or with branches in, the countries covered by the survey: Belgium, France, Ireland, Italy, the Netherlands, Switzerland, West Germany and the United Kingdom.

The table compares the pay of three kinds of executive – heads of finance and of production as well as managing directors – in companies with no more than 100 employees, and in those with between 250 and 1,000.

But before discussing the figures, it is important to note factors which require that the results of all pay surveys be interpreted with caution.

Since the network's study draws its information from 2,673 companies employing nearly 30,000 managerial staff, it has the advantage of being sample of executives. But, as in all such studies, it cannot provide more than loose indicators of the real state of pay and perks.

Even with jobs which can be defined as virtually identical, the rewards vary in too many ways for surveys to measure accurately.

The variable factors include the size of the employing organisation, its economic sector, and the district – let alone the country – where it is sited.

Provided the results are interpreted broadly, however, they do offer an approximate guide to international differences in the going rates for different types of executives.

The indicators in the table are reached by taking a "benchmark" job-holder – the median executive who comes precisely mid way in a ranking by pay of all in the same kind of work in the same country.

For each type of job, in each size of company, in each land, the table shows the median person's basic salary, total rewards received in money, and "buying power" – which is calculated in two stages.

The first is to deduct from the total money rewards the country's regular tax and social security charges for a person of that income level who is married with two dependent children.

The resulting net pay figure is then converted into buying power by adjusting it in line with international differences in living costs, with the exception of outlays on housing which vary too much from place to place for the surveys to measure.

The continental currencies have been converted to sterling at the London closing rates on June 22, and the countries are ranked by the buying power of the median head of finance in the company with 250-1,000 employees.

By that measure, the best earnings prospects for financial managers are offered by France; with Switzerland, Italy, and West Germany taking the next three places. Another thing those countries have in common is that more often than not the heads of finance are paid less than the heads of production.

In Switzerland and Italy the median production chief is better rewarded than the finance equivalent in both sizes of companies. In France and West Germany the same applies only in the 250-1,000 employee organisations.

By contrast, in the four other countries, including the UK, the head of finance is consistently better paid than the production chief. The fact that the same four countries also have the lowest rewards for managing directors as well as the two other types of executives, surely begs the question of whether those two factors are connected.

To compensate the UK financial managers for their relatively poor place in the money-pay league, far more of them than their continental counterparts had company cars.

The four-wheeled perk was supplied to 88 per cent of the finance chiefs in Britain compared with 78 per cent in the Netherlands, 73 per cent in Italy, 66 per cent in Belgium, 63 per cent in France, 62 per cent in Ireland, 58 per cent in Germany, and only 28 per cent in Switzerland.

Remuneration in Europe. £500. Available from P-E Inbucon, Park House, Wick Rd, Egham, Surrey TW20 0HW.

SENIOR MANAGERS' PAY IN SMALL AND MEDIUM-SIZED COMPANIES

COUNTRY	Position	Up to 100 employees: Basic salary £	All cash rewards £	Buying power £	250-1,000 employees: Basic salary £	All cash rewards £	Buying power £
FRANCE	Managing director	55,923	65,429	44,636	62,879	73,569	52,286
	Head of production	33,026	37,980	29,464	42,029	48,334	36,383
	Head of finance	34,274	38,387	28,780	40,294	45,119	34,370
SWITZERLAND	Managing director	53,691	61,745	38,087	77,489	93,183	53,241
	Head of production	39,118	41,035	27,119	51,390	56,759	35,660
	Head of finance	36,817	37,584	25,165	47,939	51,774	33,135
ITALY	Managing director	60,745	71,464	40,341	65,548	80,045	43,596
	Head of production	47,705	49,694	29,578	51,419	55,891	32,825
	Head of finance	42,252	46,947	28,580	47,183	52,427	30,790
W. GERMANY	Managing director	62,288	69,794	42,112	71,605	84,708	49,258
	Head of production	30,881	31,868	22,270	41,021	42,864	28,483
	Head of finance	33,350	34,305	23,699	39,374	40,461	27,229
NETHERLANDS	Managing director	46,322	52,632	27,551	58,480	65,789	31,505
	Head of finance	38,595	40,936	23,050	44,152	47,953	25,702
	Head of production	35,088	39,474	22,840	42,690	45,614	25,088
UK	Managing director	32,500	40,042	27,909	48,000	51,456	34,837
	Head of finance	25,652	27,278	19,888	30,287	33,778	23,982
	Head of production	17,480	18,153	13,978	29,648	31,346	22,851
BELGIUM	Managing director	39,622	50,700	26,562	66,373	75,059	33,203
	Head of finance	29,981	31,109	18,909	39,306	42,958	22,891
	Head of production	26,861	26,861	16,653	39,636	41,670	22,211
IRELAND	Managing director	26,822	31,634	18,205	43,937	47,603	24,749
	Head of finance	22,847	24,605	15,140	28,559	30,009	17,269
	Head of production	20,925	21,968	13,567	28,032	29,613	17,042

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Fax (0753) 694267

SURREY £80,000

Financial Director

Well-known plc. Department of 200 plus extensive computer commitment. To contribute major role in management triumvirate. Ref 29390

For further details contact:
The Manager, Reed Accountancy,
76 High Street, Guildford (0483) 69151
Fax (0483) 32311

Phone or send your CV to the appropriate manager, or request an application form. Out of office hours, call 01-770 7780 or 0483 740401. Reed actively promotes Equal Opportunities.

Rewarding 'greenfield' opportunity Financial Manager

c£26k + car + benefits S.London

Our client, a young hotel company possesses the potential to grow significantly over the next few years and has ambitions to seek an USM listing.

Central to achieving this ambition will be this newly-created position of Financial Manager. Reporting to the Group General Manager, the role will assume responsibility for all aspects of the financial function implementing financial controls and liaising closely with operational managers and external advisers. Close support of the Chairman and Chief Executive in the implementation of the business development strategy will be a key task.

We are seeking a qualified accountant, probably with a background in a multi-site service industry who can demonstrate a successful track record and the ability to develop innovative solutions to organisational problems created by a fast-moving and dynamic environment. The ability and ambition to grow with the business will be a vital determinant of success.

The successful candidate can expect to enjoy an attractive salary and benefits package and look forward to sharing the substantial rewards that growth will bring. Interested candidates should, in the first instance, send their full career and salary details in absolute confidence to Brian Ayres at the address below:

Moores Rowland

Moores Rowland Management Consultants, 43 Eagle Street, London WC1R 4AP

PROJECT ACCOUNTANT

RETAIL

North London — Aged 28-32 — to £35,000 + Car

This major retail group is committed to maintaining its dominant market position. It will continue to enhance a strong international profile through organic and acquisitive growth.

To meet the challenge of sustaining a clear competitive advantage, there is an immediate requirement for a key individual to join the high-profile business review team.

The role will focus on the enhancement of efficiency through the review of financial and operational systems. This will include seeking and implementing solutions to business problems.

The ideal candidate will be a commercially minded accountant with at least three years' post qualification experience. Progression into senior line management will only be limited by personal ability.

There is considerable executive level exposure, and therefore assertiveness, diplomacy and strong interpersonal skills will be essential attributes.

Interested applicants should contact Giles Daubeney, either by phoning him on 01-437 0464, or by writing to him, enclosing a detailed CV, at the address below.

ROBERT • WALTERS • ASSOCIATES
RECRUITMENT CONSULTANTS
Queens House 1 Leicester Place London WC2H 7BP
Telephone: 01-437 0464

THE *WCRS* GROUP PLC

GROUP ACCOUNTANT

c. £40,000 + Car

Central London

Young high flying ACA-Media Group

The WCRS Group plc is one of the world's largest communications groups, with business activities comprising advertising, public relations, media and sponsorship. Although the European market is its strength, it is active in over 20 countries. Growth has been impressive, due in no small part to a corporate culture encouraging imaginative thought and individuality of approach.

Group centre is lean and concentrates on strategic issues. Resulting from a recent promotion, an opportunity has arisen for a Group Accountant. Reporting to the Director – Corporate Finance, the brief is to provide and interpret Group financial information, with an emphasis on the creation and promotion of Group profit opportunities. Managing a team of 5, you will also oversee the consolidation of Group information and maintenance of head office accounts.

Candidates, in their late 20's to early 30's, will be qualified Accountants and technically excellent. The successful candidate will have an enquiring mind and the ability to challenge the norm. Probable profiles would be either an ACA currently working at the centre of a major group or as a manager from a 'Big 8' firm.

Please apply directly to Mark Ehrlich at Robert Half, Freepost, Walter House, Bedford Street, 418 The Strand, London WC2R 0BR. Telephone: 01-836 3545, evenings: 01-556 3615. Alternatively, fax your details on 01-836 4942.

Financial Recruitment Specialists
London · Birmingham · Windsor · Manchester · Bristol · Leeds

ROBERT HALF LONDON

Senior Financial Management Professionals

over £40,000 tax free plus excellent benefits: Saudi Arabia

Our client is a dynamic and highly prestigious *Group with substantial and diversified interests,* involving a large number of distributorships and joint ventures with leading, multi-national manufacturing and trading companies. Continuing expansion of their business activities has created *two excellent openings for senior finance* professionals with the vision and experience to make a significant contribution to their continuing success.

Group Financial Controller

You will be directly responsible for all aspects of financial and management accounting throughout the Group. Specifically your brief will be to establish accounting policy and improve existing systems, formulate new planning and budgetary methods and produce regular financial reports and management accounts to the Board.

You will combine an accountancy qualification with at least eight years' commercial experience, latterly at a senior level in an international company and potential to deputise for the V.P. – Finance. Fluency in Arabic is essential. Ref: FT. 1266/3.

Finance & Administration Manager

Reporting to the VP – Industrial Group your *remit includes the management and direction of all* the financial and administrative functions required to support the operating companies. This will involve budgeting, financial and management reporting, investment appraisal, management information systems, treasury function and company secretarial activities. As a key member of the management team you will also deal with the day-to-day business of the companies including deputising for General Managers in their absence as well as be involved in expansion and diversification plans.

A qualified accountant, preferably with a business degree or similar, you should have a minimum of 5 years' experience at a senior level in an industrial and international commercial environment, preferably fmcg as well as core experience in manufacturing cost accounting. Experience of computerised financial systems is also essential. Ref: FT. 1266/5.

Salary is negotiable and excellent benefits include free furnished accommodation, married status, transportation allowance, bonus, free medical care and paid home leave.

Please write – in confidence – with full career details to Ghassan Yazigi, quoting the appropriate reference, MSL International (UK) Ltd., 32 Aybrook Street, London WIM 3JL.

MSL International

Finance Director

Midlands
£35-£40,000 + Car + Benefits

Our client is a major subsidiary of a large manufacturing group located in the Midlands. The company has a fast rising turnover currently in the region of £25 million per annum.

In support of exciting development plans the company is seeking an experienced Finance Director to take overall control of the finance function and specifically upgrade the company's computer based *accounting systems. The Finance* Director will also be expected to participate fully in the development of the business as a whole as a key *member of its top management* team.

Applicants must be experienced qualified accountants with a solid record in financial management ideally in a manufacturing environ*ment. The post demands well* developed managerial skills and the ability to successfully conclude tough commercial negotiations at the highest level.

This is an exciting career oppor*tunity for an ambitious accountant* who relishes the challenge of revamping the existing financial organisation and systems in a medium sized company.

Salary is negotiable, and includes an attractive annual bonus plus an *executive* car. Applicants should write in confidence with career details, age and current *salary quoting reference* MCS/2051 to Jim Mitchell,

Executive Selection Division
Price Waterhouse
Management Consultants
Livery House
169 Edmund Street
Birmingham B3 2JB.

Price Waterhouse

ACQUISITIONS MANAGER

Consumer Goods

Cambs/Lincs base — Package to £40,000 + car

This household name public group has a record of growth and accelerating profitability and commands the respect of the city and its customers. Its strengths are an innovative, professional management team and strategically advantageous positions in growing markets. Building on its acquisitions successes, the group aims to strengthen the business development team and intensify its programme of deals.

Reporting to the Finance Director, you will be supported by two dedicated professionals and lead the acquisitions programme in the USA and Europe. The team is involved throughout the acquisitions process; identifying and financially evaluating target companies, negotiating deals and playing a full part in their integration into the group.

The successful candidate will be a financial MBA or qualified accountant, in his or her early/mid thirties. A track record of progression in sophisticated organisations, combined with involvement in acquisitions, as advisor or principal, is prerequisite. The group offers excellent career development opportunities to committed professionals with commercial flair.

Please reply in confidence, giving concise career, personal and salary details to Heather Male, quoting Ref. L426.

Egor Executive Selection
58 St. James's Street
London SW1A 1LD (01-629 8070)

EGOR EXECUTIVE SELECTION

United Kingdom · Belgium · Denmark · France · Germany · Italy · Netherlands · Portugal · Spain

Financial Controller

North West — **c£28,000 + Car + Bonus**

Our clients are a market leading subsidiary of a major UK group, engaged in the manufacture of specialised capital machinery for markets world wide. Recent repositioning of the business has highlighted specific areas where improved management controls will result in a significant increase in profitability and establish a sound base for further growth.

They now seek a commercially minded Financial Controller to work closely with the Managing Director as a key member of the management team, making a significant contribution to the overall management of the business, including the formulation of business development strategies. Specific responsibilities will include the development of effective financial controls and management information systems, together with cash and asset management.

Candidates should be graduate qualified accountants, (probably ACMA), aged in their early to late 30s, who can demonstrate a full understanding of manufacturing business and significant experience of computerised management information systems.

A proactive management style with a forward thinking approach and strong interpersonal and commercial skills are essential to succeed in this demanding environment.

Interested applicants should forward their current CV to Iain Blair ACMA quoting ref 4456 at
Michael Page Finance, Executive Division, Clarendon House, 81 Mosley Street, Manchester M2 3LQ.

MP

Michael Page Finance
International Recruitment Consultants
London Bristol Windsor St Albans Leatherhead Birmingham Nottingham
Manchester Leeds Newcastle-upon-Tyne Glasgow & Worldwide

Finance Director

Cheshire — **to £30,000 + Car + Bonus**

Our client is a market leader in the highly competitive field of home furnishings, with a growth rate of 250% over the past three years. A management buy-out from a major UK retail group has created the need to establish an independent finance function and develop integrated computerised financial systems.

To meet this requirement, they seek a commercially orientated Finance Director to become a key member of the buy-out team. In addition to an overall contribution to the strategic management of this profitable business, you will assume specific responsibility for management of working capital and the improvement of production control and inventory control systems.

Candidates should be qualified accountants, aged 30-45, who can demonstrate a successful track record of financial management in an FMCG environment. A sound manufacturing background, together with high levels of commitment and well developed interpersonal skills, are prerequisites.

Interested applicants should forward their current CV to Iain Blair ACMA quoting reference 4457 at
Michael Page Finance, Executive Division, Clarendon House, 81 Mosley Street, Manchester M2 3LQ.

MP

Michael Page Finance
International Recruitment Consultants
London Bristol Windsor St Albans Leatherhead Birmingham Nottingham
Manchester Leeds Newcastle-upon-Tyne Glasgow & Worldwide

FINANCE DIRECTOR

Gloucestershire
Up to £25,000+Executive Car+Major Benefits

As part of a planned programme of international expansion, our Client – a large, successful and highly acquisitive European Group with an annual turnover in excess of £27 million – has recently assumed control of a well-established FMCG operation based in Gloucestershire. The Group enjoys a high profile in its market place, currently accounting for some 30% of world sales in several consumer product lines.

The Group wishes to appoint a Finance Director for the £4 million turnover subsidiary company. The successful applicant will report to the Managing Director, taking sole responsibility for all financial, management and treasury functions of the company.

Since the Group is heavily computerised, candidates – *preferably ACAs with a strong industrial* background – will require sound IT knowledge and systems experience. A high level of commercial awareness is essential, as is the ability and enthusiasm to get to grips with the day-to-day challenges of a busy working environment, often at grass roots level. Some acquisitions knowledge would be advantageous; the incumbent will be called upon to deputise for the Group Finance Director in his absence. There is also a possibility of some overseas travel to European subsidiaries in the future.

The position carries substantial opportunity for advancement, with excellent promotional prospects. A very attractive package awaits the successful candidate, comprising a starting salary of up to £25,000, company car, bonus scheme, BUPA, non-contributory executive pension scheme and a generous relocation allowance.

To apply please write with full CV and salary details, to Margaret-Anne Stocker, quoting reference B/195/89.

KPMG Peat Marwick McLintock
Executive Selection
Peat House, Lansdown Road, Cheltenham, Gloucestershire GL50 2JA.

Progressive International Airline

FINANCIAL MANAGER

To £27,000 + Car + Benefits
Crawley, West Sussex

Air Europe, a major force in todays aviation scene and part of the dynamic International Leisure Group, is now pursuing an exciting programme of investment and growth. This involves the expansion of their network of scheduled services from Gatwick to European business and holiday destinations, as well as further diversification of their traditional charter market to the long haul arena.

This growth has now created an opportunity for an ambitious accountant to join Air Europe's headquarters finance team in an important new financial management role.

You will be responsible for the direction and development of a team of approximately 30 staff, including qualified and part qualified accountants, ensuring the production of comprehensive and timely management information, the development of a range of financial systems, and the implementation of effective controls required to monitor overheads, capital expenditure and other trading costs.

The individual sought will be a qualified accountant, likely to be aged 25-32, and able to demonstrate ability, enthusiasm and achievement. You will be required to solve complex problems, manage people and deliver results, whilst working within a high pressure environment.

This high profile appointment offers an ideal platform for career progression within Air Europe and more widely within the International Leisure Group. In addition to a competitive salary and company car there are generous holiday, travel and other benefits.

For a detailed and confidential discussion, contact Paul Goodman or Brian Cognet on 01-387 5400, out of hours 0923 720284 or write to Financial Selection Services, Drayton House, Gordon Street, London WC1H 0AN. Fax 01-388 0857.

air europe

FINANCIAL CONTROLLER

Sears plc

£27,500 + Car + Bens

NW London

Warehouse Group, acquired by Sears plc in January 1988, is a specialist retailer of exclusive women's fashionwear for the young market. Turning over some £18 million and operating through 34 branches countrywide, the company is already well established within its marketplace. With the resources of the retail giant Sears and through the direction of a small, highly motivated management team, of which the Controller will be an essential member, the company is now uniquely placed to embark upon a period of rapid growth and development.

In order to realise the full potential of the company, Warehouse now seeks a young Controller to make a positive contribution to these expansion plans. Leading a small team, this key role involves the development of systems as well as the production of management and financial information. Liaising extensively with non-accounting functions and other divisions within Sears, you will become heavily involved in the strategic direction of the company.

Aged 25-35, you should have at least 18 months' post-qualification experience within a fast moving, commercial environment. Proven communication skills are essential, as is the drive and enthusiasm necessary to meet the challenges of this very competitive marketplace.

Please apply directly to Penny Ridgett, Freepost, Walter House, Bedford Street, 418 The Strand, London WC2R 0BR.
Telephone: 01-836 3545, evenings:01-853 4009. Alternatively, fax your details on 01-836 4942.

Financial Recruitment Specialists
London · Birmingham · Windsor · Manchester · Bristol · Leeds

RH
ROBERT HALF
LONDON

STEWARD

Group's Finance Controller

West London — **To £40,000 plus car**

The former Group Finance Director at this highly respected electrical business has been promoted to Group Managing Director. He now requires a Controller to work with the Holdings Board to take the Group into a new phase of profitable diversification.

The £60m turnover Group is established as a leading electrical and mechanical contractor with several overseas companies. One group company, acquired 4 years ago, has become one of the UK's premier low voltage switchgear manufacturers. The Group is highly acquisitive and undergoing considerable expansion.

Growth potential of this role is excellent for an ambitious, positive, commercially astute accountant aged 30-40, with strong communication skills. Experience of construction related industries, of upgrading computerised information systems and of methodical line management are of paramount importance. Please forward your curriculum vitae with an appropriate covering letter which includes your present earnings and a daytime telephone number to:–

HODGSON IMPEY hi

Peter Willingham (Ref: 056)
Managing Director
HODGSON IMPEY
SEARCH & SELECTION LIMITED
50 Pall Mall London SW1Y 5JQ.

QUALIFIED CIMAs – £22,000 – £35,000
+ Substantial Benefits

"I'm looking to use my product costing skills in a totally different environment"

As the financial services marketplace becomes increasingly competitive, success will depend on an organisation's ability to understand and react to the needs of its customers. Midland Group, through its numerous businesses, provides an extensive range of financial products and services for personal and corporate customers both in the UK and overseas.

With so much emphasis on new product development, Midland Group presents an excellent opportunity for qualified CIMAs with backgrounds in manufacturing industry or commerce to broaden their experience. We require bright, enthusiastic people to improve Midland's existing product profitability systems, and contribute towards new product development strategies.

In an environment of variety and change, with a progressive management style, career progression is rapid and based purely upon personal contribution.

Together with salaries ranging from £22k to £35k, we offer a comprehensive range of banking benefits, including mortgage subsidy. In addition, some positions include a company car.

If you would like to know more about the attractions of working for Midland Group, contact Charles Austin, quoting ref: A321, at Mervyn Hughes International Ltd, Management Recruitment Consultants, 63 Mansell Street, London E1 8AN. Telephone 01-488 4114.

MIDLAND GROUP

European Roles — to £30,000 + car

Our client is the fast growing European operation of Cognos which is a successful leading Canadian software supplier specialising in advanced language technology for developing business applications. The company has been operating since the early 1970s and is committed to a high level of expenditure on research and development. Consequently its pace-setting products are recognised worldwide and there is considerable scope for widespread expansion.

The European business has grown dramatically and as a result two new positions have been created, based at the European head office in Bracknell and reporting to the European Financial Controller.

Assistant Financial Controller

This position will assist in providing a complete controllership function for a number of European subsidiaries, along with accounting, business and systems support for the regional operations managers. Most importantly, it is a proactive business role intended to give active and constructive commercial support rather than merely supplying an accounting service. **Ref ER186**

Manager – Business Planning

This position will carry responsibility for all budgeting and forecasting activities along with business analysis for the European subsidiaries. Candidates for this position must have experience of budgeting, preferably in a European environment. **Ref ER187**

Candidates will be recently qualified chartered accountants aged in their late 20s to early 30s. They should have experience of progressively more demanding roles with up to two years' post qualification experience. They must be commercially aware and have had some exposure to the financial systems, controls and reporting procedures of a fast moving hi-tech company.

An ability to adapt quickly to the demands of a changing environment must be combined with a dynamic results oriented style. Well developed interpersonal skills and initiative will be essential. Some travel will be necessary and the ability to speak a European language would be useful.

These are excellent career positions for the progressive candidates looking to make an impact during their business careers.

If you are interested please reply in confidence giving concise career, personal and salary details quoting the appropriate reference to: **Michael Fahey, Arthur Young Corporate Resourcing, 21 Conduit Street, London W1R 9TB.**

Arthur Young Corporate Resourcing

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

GROUP FINANCIAL CONTROLLER

Gwent £25,000 – £30,000 + Bonus + Car

Brushes International Limited is the management and holding company for a well established industrial brush *manufacturing group which has subsidiaries* in France, Germany, Portugal, Brazil and the UK.

The post holder will report to the Group Chairman and will work closely with him, providing consolidated accounts and interpreting results for companies within the Group, undertaking ad-hoc projects which will involve travel within Europe, and assisting with the formation of strategic plans. Responsibilities will include treasury functions, administrative assignments and Company Secretarial duties.

The successful candidate will be a fully qualified chartered accountant, with at least 2 or 3 years post qualification experience, which will have included consolidation of accounts, preferably in an international group environment. A working knowledge of European accounting conventions and some degree of fluency in French and other languages would be advantageous.

Prospects for advancement and increased responsibility within the group are excellent. A generous and negotiable salary package is offered together with relocation assistance where applicable.

For further information please telephone Ann Fry on 0222 462463 or send your CV to her at the address shown below.

KPMG Peat Marwick McLintock

Executive Selection
Marlborough House, Fitzalan Court, Fitzalan Road, Cardiff CF2 1TE

Leading Retail Group

Senior Financial Analyst

to c£30,000 + Car + Benefits

West End

Our client is one of Britain's leading international retail companies. They are currently embarking on an exciting programme of investment and change involving the highly innovative re-development of existing stores, the opening of numerous new outlets and the promotion of high profile brands. In addition they have recently entered into an important new strategic business venture and acquired a prestigious European fashion chain.

As a result of the clearly defined requirements for strong financial management and control a challenging new appointment has now arisen within the young group finance team.

Reporting to the Financial Planning Manager you will play an important role in ensuring that the group board receives the high quality of information and commentary required to make key business decisions. This will encompass the analysis and interpretation of subsidiary performance, appraising and making recommendations relating to major capital expenditure proposals, involvement in the group budgeting and forecasting process and a range of ad hoc assignments.

The individual we are seeking must be a qualified accountant, ACA/ACMA/ACCA, probably under 30, and should already have gained at least eighteen months post qualification experience in a commercial environment.

You will be a confident and assertive professional capable of high quality objective analysis, with a strong commercial analysis.

This is an ideal opportunity to gain experience in a dynamic plc headquarters. Promotion prospects are excellent and success in this demanding role will create an ideal platform for accelerated career progression.

Contact Paul Goodman or John Bowman, Consultants to the Company, at Financial Selection Services 01-387 5400 (24 hours) evenings 0474 874473 or write to Financial Selection Services, Drayton House, Gordon Street, London WC1H 0AN. (Fax 01-388 0857).

financial SELECTION SERVICES

Executive Selection Division

Divisional Finance Director Designate

Greater Manchester — c£35,000 + Car + Bonus

Our client is an internationally renowned UK group, engaged in the manufacture and marketing of specialised technical products. A reputation for excellence of design and high quality manufacturing has established them as market leaders in their field. Current group restructuring is being undertaken to provide a flexible approach to product development, manufacture and distribution across all operations, in preparation for the European single market. These activities will be supported by a major capital investment programme.

Initially, you will assume responsibility for day to day financial control of their Manchester based business and financial project management for the establishment of the major operating division of the group. Early progression to Divisional Finance Director is envisaged, where you will play a key role in the future development of the division. Your responsibilities will include the financial control of international manufacturing and marketing operations and in particular the development of effective financial control systems, performance evaluation and review and the management of working capital, together with overall strategic development of the business.

Candidates should be qualified accountants, aged 30-40, who can demonstrate a strong track record of achievement at senior management level within a manufacturing environment. Strong interpersonal skills, together with intuitive commercial acumen and the ability to contribute significantly to broader business development, are essential.

Interested applicants should forward their current CV to Iain Blair ACMA quoting reference 4455 at Michael Page Finance, Executive Division, Clarendon House, 81 Mosley Street, Manchester M2 3LQ.

Michael Page Finance
International Recruitment Consultants
London Bristol Windsor St Albans Leatherhead Birmingham Nottingham
Manchester Leeds Newcastle-upon-Tyne Glasgow & Worldwide

FKI

Finance Director

West Midlands — c £30,000 + Car

Part of the FKI Babcock PLC, the growth orientated UK based multi-national, our client is a profitable £20m turnover engineering company involved in the sale and manufacture of capital equipment. The Finance Director will be a key member of the management team, charged with continuing the successful growth record of the company.

The successful candidate will assume total responsibility for all finance and related functions in a demanding business environment. In particular, he/she will be required to adopt a 'hands on' approach to the development and implementation of financial and contract control systems, cash management and strict cost discipline.

Candidates, aged over 30, should be qualified accountants, who can demonstrate a successful track record gained in an engineering capital goods orientated manufacturing business. In addition to strong technical skills, the drive and ambition to succeed in a dynamic, fast moving operation is essential.

An excellent salary package with full relocation is on offer. Interested applicants should write enclosing a full CV, to Tony Hodgins ACA at Michael Page Finance, Bennetts Court, 6 Bennetts Hill, Birmingham B2 5ST.

Michael Page Finance
International Recruitment Consultants
London Bristol Windsor St Albans Leatherhead Birmingham Nottingham
Manchester Leeds Newcastle-upon-Tyne Glasgow & Worldwide

Financial Controller

Dynamic Public Property Company
London SW1 £30-35,000 plus car

Our client is a fast growing, major public property company involved in investment, development and trading operations. With a reputation for entrepreneurship combined with prudent policies, the company has expanded significantly in recent years and is financially strong. This, together with an exciting development programme and energetic management provides for a further period of controlled growth.

They now wish to appoint a young Financial Controller reporting to the Group Financial Controller, to be responsible for the accounting department, preparation of year end accounts, cash management and overseas reporting. Development and enhancement of accounting and management reporting systems will be a key part of this proactive role.

Applicants must be commercially aware Chartered Accountants with at least three years post qualification experience, which should include financial modelling and computerised accounting systems. Flexibility and willingness to work under pressure are essential as are good technical and interpersonal skills. Knowledge of the property sector would be useful.

There are good prospects for career development within this fast expanding company.

Please send your curriculum vitae, including current salary and daytime telephone number, quoting reference I2017 to Andrew Goodburn, Grant Thornton Management Consultants Limited, Grant Thornton House, Melton Street, Euston Square, London NW1 2EP.

Grant Thornton
MANAGEMENT CONSULTANTS
The UK member firm of Grant Thornton International

In The North East

BRENT WALKER

Financial Controller – Inns

Cleveland – Hartlepool c. £28,000 + Car + Benefits

Brent Walker Group Plc is a highly acquisitive business engaged in leisure activities including brewing, wines and spirits and media both in the U.K. and overseas. The recent acquisitions of J.W. Cameron & Co. Ltd., Tollemache Cobbold Breweries Ltd., and their 834 public houses, in addition to 334 tenanted houses from Grand Metropolitan has resulted in a significant strengthening of the Brewing and Leisure Division.

A recent reorganisation will centralise the management and activities of all Brewing and Inns at Hartlepool and has brought about the need to recruit further senior management to strengthen the existing team.

This newly created Executive level appointment will be responsible for the financial management of around 1200 tenanted and managed houses throughout the U.K. Reporting to the Board of Directors you will be involved in the strategic development of the estate and its growth in terms of revenue, profitability and asset base. There is a continual need for the ongoing development of management information and for interface with other disciplines including the sales, marketing and distribution functions.

We anticipate you will be a qualified Accountant, aged 28-40 with the ability to motivate and gain acceptance of ideas by others in a dynamic environment. A positive, communicative self-starter you should have a track record of tangible, measurable results and possess the ability to deal logically with a variety of problems in order to meet deadlines.

In return you will enjoy a challenging and diverse role dealing with all levels of management, in a Group offering outstanding opportunities for further career development. A full relocation package is offered where appropriate.

Candidates with the relevant background and experience should apply without delay.

Nigel Wright Consultancy
Saville Chambers, North Street (off Saville Row), Newcastle upon Tyne NE1 8DF. Telephone 091 222 0770 including evenings and weekends.

Specialists in Financial Recruitment

GROUP ACCOUNTING

Service Sector Leader

c£30,000 + car

An autonomous subsidiary of one of the world's strongest financial groups, our client is a leading force in its rapidly changing sector.

As a key member of a close knit head office team, responsibilities will include the review and consolidation of management and statutory accounts, budgetary control and financial planning. Regular contact with management of self accounting regions and ongoing accounting and systems development work will provide further challenge and fulfilment.

Aged late 20s/early 30s, applicants should have at least four years' post qualification experience gained either in the profession or commerce/industry. Career prospects in this company and the parent group are excellent.

Please write with full career details or telephone David Tod BSc FCA quoting reference D/840/CF.

LLOYD MANAGEMENT

LLOYD MANAGEMENT Selection Consultants 125 High Holborn London WC1V 6QA 01-405 3499

Assistant Financial Controller

Hertfordshire

c£28,000 + Car

Our client is an autonomous manufacturing and distribution group. The company, turnover c£60m, has gone through a period of significant change and seeks to strengthen the central financial team as it moves into the growth stage.

The role has responsibility for the international group reporting coupled with treasury and PC computer systems development work. There will be high exposure to the senior management within the group and current involvement with the UK locations will be necessary on special project assignments including acquisition studies.

Candidates should be qualified accountants with broad accountancy experience, shirt sleeve and flexible approach.

Please telephone or write enclosing full curriculum vitae quoting ref: 331 to:
Nigel Hopkins FCA,
97 Jermyn Street,
London SW1Y 6JE
Tel: 01-839 4572

Cartwright Hopkins
FINANCIAL SELECTION AND SEARCH

Appointments Advertising

For further information

call 01-873 3000

Deirdre McCarthy ext 4177

Paul Maraviglia ext 4676

Elizabeth Rowan ext 3456

Patrick Williams ext 3694

Candida Raymond ext 3351

Financial Planning Manager

Mobile Communications – The New Generation

To £35,000 + prestige car

Our client is looking for a young and dynamic Financial Planning Manager. Owned by a consortium of multi-national companies, the company has recently been awarded a Telepoint operator's licence and is poised for explosive growth in the exciting telecommunications industry.

You will report to the Finance and Administration Director and be responsible for the financial planning and treasury functions within the company including:-

- the review of capital expenditure and marketing proposals;
- the management of a major subscriber billing contract;
- financial forecasting, financing arrangements and cash management;
- various ad-hoc projects.

The appointee will be a key player in a high calibre and vigorous team.

You must be a qualified accountant, probably with a degree or MBA, who has worked in a senior financial role with a major profit orientated company. You will be aged 28 to 32, have at least three years' post-qualification experience, preferably in a fmcg industry and be able to demonstrate sound career progression. You must be highly motivated with strong leadership qualities and possess first class technical and interpersonal skills. Above all you must have the flair, intelligence and flexibility to succeed in this new position in an environment which will change the face of personal communications over the next decade.

This is an important appointment, based in a congenial location in the South, which offers genuine career development potential.

If you are interested, please telephone Stuart Adamson FCA or Graham Marlow on 0532 451212 or send your CV, in confidence, quoting reference number 667, to Adamson & Partners Ltd, 10 Lisbon Square, Leeds LS1 4LY.

ADAMSON & PARTNERS LTD.
Executive Search and Selection

INTERNATIONAL FINANCIAL ANALYST

Age 28-30 yrs Central London Salary c.£28-32,000 pa+Car

One of the more rapidly growing and profitable companies within this British Multinational Billion Pound Plc has recently promoted one of its Senior Financial Analysts to be Financial Director of a UK subsidiary. Dealing with well-known brands of consumer products, the objective of this exceptional career opportunity is to provide a prime contact and guidance for local finance teams. Specific responsibilities will include:

* Understanding the financial and commercial aspects of those international units delegated to the Analyst.
* Analysing results, forecasts, annual budgets and five year plans (the latter two areas would necessitate a strong presence and input at local unit level).
* Appraisal of those capital investments requiring Main Board approval.
* Becoming a 'Resident Expert' in such specific areas as Competitor Analysis or Group Working Capital requirements, as required.

In order to undertake the above, the successful candidate who will be a Qualified Accountant, must clearly demonstrate:

* An ability to commercially interpret data and make recommendations on financial/business issues.
* An aptitude to think conceptually, beyond specific experience.
* Strong interpersonal skills, with a high level of maturity and credibility. Capable of positively challenging whilst maintaining good, open working relationships with local management.

There will be some overseas travel.

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FINANCIAL TIMES
COMPANIES & MARKETS
Thursday June 29 1989

INSIDE

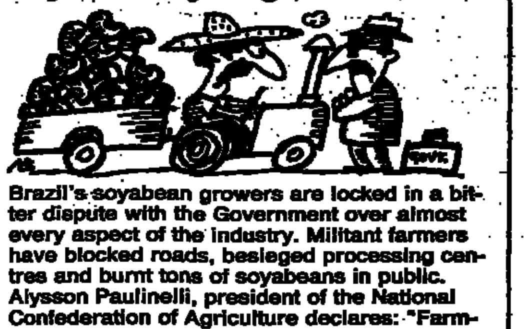
Forward with the Swedish revolution

Monday will be big day for Bengt Dennis. Out will go most of what remains of Swedish foreign exchange controls and, as governor of the country's central bank, Dennis will be left to wrestle with the growing problem of capital outflows. The chief architect of his country's financial revolution in the 1980s is convinced, however, that there can be no going back. Robert Taylor talks to him about his strategy as the country reaches the final stages of economic liberalisation and deregulation. Page 22

Watanabe cast as chief villain

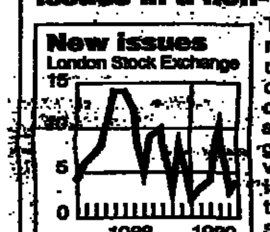
Koito Manufacturing, the Japanese company under siege from T. Boone Pickens, the US corporate raider, and Mr Kitaro Watanabe, his Japanese ally, hit back in a very tough-talking American-style yesterday. It made clear that its main adversary was not Mr Pickens but Mr Watanabe, who previously held the 20.2 per cent stake now owned by the American's private investment company. Stefan Wagstyl looks at Koito's refusal to give ground as Pickens demands three seats on the board. Page 20

Soya destroyers go to war



Brazil's soyabean growers are locked in a bitter dispute with the Government over almost every aspect of the industry. Militant farmers have blocked roads, besieged processing centres and burnt tons of soyabeans in public. Alysson Paulinelli, president of the National Confederation of Agriculture declares: "Farmers are being victimised by a triple garotte: no credit, price freezes and a ridiculously overvalued currency." He insists farmers will not sell a single bean until their grievances have been settled, reports John Barham. Page 28

Issues in a non-vintage year



The first half of 1989 may have seen a sharp upsurge in the prices of companies already quoted on the London stock market but it is not going to go down as a vintage period for new issues. On the contrary, the first six months have seen both the number of companies joining the market, and the funds they have raised, fall significantly from the more or less stable levels of the previous two years. Clare Pearson reports. Page 27

Malaysia's party pooper

The Malaysian stock market has been one of the world's better performers this year, but foreigners may be hindered from building up investments there because of a shortage of top quality stocks, writes Wong Sulong. Page 40

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)				**PARIS (FFr)**		
Rises				Rises		
Babcock	249	+ 24		Imetal	6270	+ 240
Dyck-Werke	225	+ 10		Radiola	3340	+ 80
Rheinmetall	1630	+ 35		SGE	780	+ 15
Varta	374.5	+ 14.5		Falls		
Falls				CMB Pack	676	− 30
Leifheit	520	− 10		Hachette	400	− 20
Porsche	780	− 10		OFP	1460	− 22
NEW YORK ($)				**TOKYO (Yen)**		
Rises				Rises		
Paramount	65⅛	+ 1¼		Daiwa	1850	+ 220
Warner	59⅞	+ ⅞		Shin-Kobe Elec	1570	+ 210
Falls				[illegible]	1780	+ 220
Exxon	45⅝	− ⅝		Union Optical	1150	+ 180
Merck	68⅞	− [illegible]		Falls		
Philip Morris	146⅝	− [illegible]		Nippon Conlux	1670	− 150
Time	104⅛	− 2⅛		Takeda Home	1520	− 130

New York prices at 12.30

LONDON (Pence)						
Rises				LASMO	482	+ 14
Armstrong Equip	178	+ 5		Pearson	732	+ 15
Bank of Scot	95	+ 4		Polly Peck	283	+ 6
Barratt	208	+ 19½		RMC	785	+ 11
[illegible]	285	+ 7		Reckitt	1019	+ 21
Courtaulds	395	+ 8		Shell	454	+ 8
Enterprise	358	+ 18		Sun Alliance	1118	+ 25
Fine Art Devs	283	+ 9		Wellcome	297	+ 9
Fisons	357	+ 7		Falls		
GEC	256	+ 8		[illegible]	78	− 3
Granada	351	+ 8½		[illegible]	183	− 85
[illegible]	550	+ 7		Land Secs	577	− 6
[illegible]	226	+ 10				
Hazlewood	232	+ 5				

GEC at top end of City forecasts with 13% rise

By Terry Dodsworth in London

PRE-TAX profits at General Electric Company, Britain's largest electrical and electronics group, rose 13 per cent last year as the company registered strong performances in its office equipment, electronic measurement and power systems divisions.

The strong upturn took GEC's profits up to £797m ($1.25bn) against £708m in the previous year, well above the group's previous high-point of £725m in 1985. With the figures at the top end of City expectations, the share price put on 8p to 256p, setting the stage for an expected new bid for the Plessey electronics company.

GEC gave no indication yesterday, however, of when the anticipated offer for Plessey, made initially last November in collaboration with Siemens of West Germany, might be renewed.

The Anglo-German consortium is at present negotiating formal agreements with the Government to prevent Plessey's military secrets passing into West German hands if a bid were successful. At the same time, the two sides are also working on commitments that would maintain competition in the defence sector.

The Ministry of Defence's latest draft document on these undertakings is expected to be delivered within a few days. But although the discussions have been going on for about 10 weeks, it is by no means certain that the latest proposals will end the negotiations. According to GEC, the main problems are in the area of preserving competition, where the MoD is believed to be taking a tough line, partly because of its unhappiness over the proposed break-up of Plessey.

Turnover last year amounted to £6.45bn, up 16 per cent from £5.55bn, while trading profits also rose by 16 per cent to £653m from £561m, and earnings per share by 13 per cent to 19.1p from 16.9p.

The proposed final dividend of 5.65p would raise the year's total by 20 per cent to 7.8p from 6.5p.

Profits were slightly depressed by £2.7m charged for the Plessey bid.

In addition, the results included significant contributions from several recent US acquisitions. The most important of these were in the A.B. Dick office equipment and printing division in the US, which saw trading profits jump to £34m from £25m, and electronic measuring equipment, where the Gilbarco petrol pump purchase had a big impact in the increase to £51m from £34m.

The Marconi defence business, under pressure last year from tighter government contracts, nevertheless lifted profits by 10 per cent at £200m from £179m.

Power Systems, where GEC is expected to benefit from the upturn in power station orders, increased its trading profits to £111m from £99m, while the semiconductor division achieved a 67 per cent increase to £30m from £18m after eliminating loss making lines.

The weakest areas were telecommunications, where the group's GPT joint venture with Plessey, which was in the throes of reorganisation last year, had profits of £7[illegible] against £81m.

The consumer goods division, centered on the Hotpoint group, and now merged into a joint venture with GE of the US, saw profits rise only marginally to £63m.

These figures demonstrated the impact of higher interest rates on consumer spending, which began to reduce sales and margins in the division after last Christmas. GEC says this squeeze has intensified in the consumer goods division since its year end in March, and that profits since then are down sharply.

Lex, Page 16

Exotic fruit whets the German appetite

Andrew Fisher on the growth of company buy-outs

In West Germany, new financial ideas tend to be treated gingerly, rather than picked up avidly. So until recently a wry shake of the head, if not a derisive laugh, would have greeted the notion of a well-established company, in a typical German industry like engineering, being bought by its managers and outside investors and then, not long after, coming to the stock market.

Yet, for the first time in Germany, a company is about to complete this very process — an indication that the concept of the management buy-out, so popular in the US and UK, is starting to gather momentum in the Republic — though it still has a long way to go.

The company concerned is Ex-Cell-O, an innovative and expansion-minded machine tool company with a turnover of around DM200m ($102m), and its path to the stock market provides some significant pointers to the current state of the German financial markets.

In May 1987 Ex-Cell-O undertook what was then the country's largest management buy-out, in a deal worth some DM100m. Textron, its US conglomerate parent, was the seller.

Next week, voting shares of the company will be given a listing in Frankfurt and Stuttgart on the junior Geregelte Markt (regulated market), designed for small companies not yet ready for a full listing.

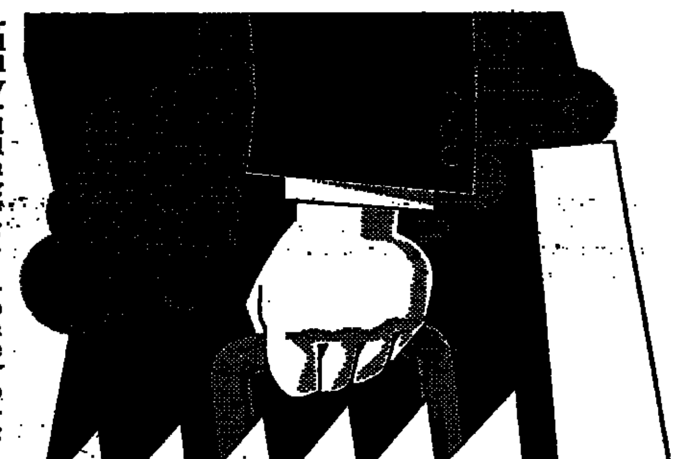
To move from being a subsidiary of a big transatlantic concern, via a management buy-out, to a stock market listing in just over two years is fast going for Germany. In the early- to mid-1980s, buy-outs had hardly been heard of in the country.

Those bankers and industrialists vaguely familiar with the concept tended to regard it as an exotic foreign creation which they would rather leave alone. But Ex-Cell-O's example could well encourage other managers to follow the same route.

That, at least, is what the proponents of buy-outs hope — and many of them are non-German, British venture capital companies. They recognise, though, that they have a lot of converting to do: while there is no shortage of dynamic and successful German managers, there has not exactly been a long queue of them clamouring to participate in management buy-outs, as in the US or Britain.

On the Continent, France has been more responsive to buy-outs than Germany, though Italy lags behind both. "France seems to adopt foreign ideas more readily," says Mr Nicholas Ferguson, chairman of Schroder Ventures in London. "In Germany, the buy-out concept was greeted with deep suspicion. But attitudes are gradually changing; there is no longer so much hostility to the idea."

It was Schroder Ventures, part of the Schroders merchant banking group, which arranged and helped to finance the Ex-Cell-O buy-out. It hopes to bring another of its German buy-outs to the market in around nine months. Although it was always the intention to sell Ex-Cell-O shares to the public, the process has moved more rapidly than expected.



Leading W. German management buy-outs

Company	Value (DMm)	Sector	Lead investor
Lignotock	540	Car equipment	Baring Capital
Ex-Cell-O	100	Machine tools	Schroders
Hein Gericke	90	Motorcycle accessories	Schroders
Rohe	70	Car wash equipment	Schroders
Heidemann	56	Motor parts	LCB-Candover

(Not all deals or amounts are publicised. Above totals are approximate. Munich's Matuschka Group says it has led one deal exceeding DM100m, but has agreed not to give details.)

The company has clearly been helped by soaring European demand for German engineering products. Ex-Cell-O sells abroad around half of its production of specially-tailored machine tools for the motor, engineering, and aerospace industries.

Also, the German stock market has emerged from a period of languor which contrasted oddly with the powerful earnings performances shown by many companies recently. Ex-Cell-O is the largest new issue so far this year, with nearly DM119m of shares being placed with German and foreign investors.

That, however, is not really saying a lot, for the new issue market has hardly been buoyant since the crash of October, 1987.

More interesting is the fact that Ex-Cell-O and its advisers have decided to go for a full-blooded issue which will leave 75 per cent of the voting shares in outside hands. Even in the so-called "going public" boom, which accompanied the bull market which peaked in April, 1986, many new issues offered only a minority of shares in companies being floated and the equity was often in non-voting preference form.

So while investors could participate in the capital gains from successful issues — or lose out when shares plummeted — they could hardly influence the shape or direction of the companies in which they invested. Of course, Ex-Cell-O, is different from many small and medium-sized companies in Germany, quoted or not, in that it is not family controlled. So there was less inherent reluctance to expose the company to the pressures and whims of the market.

The lack of timidity no doubt also reflects the influence of Ex-Cell-O's UK financial mentors. Mr Robert Osterrieth, managing director of Schroder German Venture Advisers, says the idea was to enable the stimulative effect of the bourse mechanism to work fully on Ex-Cell-O.

That, certainly, is more of a US or British notion than a German one. So far, Ex-Cell-O, which is forecasting a sizeable earnings rise in 1989 from last year's DM3.4m, has had little trouble adapting to life on its own.

It moved quickly after the buy-out to close its unprofitable UK operation, incurring costs of some DM11m as a result last year, and is eying potential acquisitions in the US.

In highly industrialised Germany, with its host of small, mostly family-owned, companies, there is clearly scope for more buy-outs. Companies like Ex-Cell-O abound, whether in engineering or other sectors. Yet progress is likely to be stately rather than headlong.

Mr Ferguson reckons that makes for a healthier situation than in Britain or the US, where prices have become inflated as deals have multiplied.

Ideas are propagated much more quickly in America and the UK." With the threatened removal in 1990 of tax breaks for private individuals selling company stakes, a rush of buy-out deals was expected this year. Some have been speeded up. The tax threat has now been removed for capital gains up to DM30m.

But even without such an artificial stimulus, participants in the financing market like Schroders, 3i, and Barings — all from Britain — and Germany's Matuschka Group, have seen enough potential to keep scouring the industrial landscape for new candidates.

Gateway's value set to rise again

By Nikki Tait in London

THE value put on Gateway, Britain's third largest food retailer which is subject to two rival bids already worth more than £2bn, could rise again after a statement yesterday from one of the bidders.

Newgateway, the bid vehicle for Wasserstein Perella and Great Atlantic and Pacific Tea Company, said it would issue a further announcement regarding the terms of its offer no later than Monday morning. "This offer, which will be declared final, may represent an increase on Newgateway's recommended offer of 237p in cash," it said.

The rival bidder Isosceles is now offering lower cash terms worth 230p a share, although it does have a cash and paper alternative. Salomon Brothers, the US investment bank, has said it believes the equity element in this is worth the equivalent of 30p-35p per Gateway share, although its background assumptions have not yet been published. On this valuation, done at Isosceles' request, the cash and paper alternative is worth 245p to 250p.

Yesterday, Mr Jim Wood, A&P's chief executive, spelt out more fully his plans for the Gateway chain if the joint bid is successful. He said that he expected to focus the chain on a regional basis, pulling out of areas where Gateway is weak and has low representation.

Rationalising in this way rather than by store size, he suggested would produce greater distribution and advertising cost savings. Areas which Gateway might pull out of would include London, where its market share is only 7 per cent, the North-West and certains parts of the Midlands and Yorkshire, he said. It would then retain a strong presence in Scotland, the North-East, East Anglia, part of Wales and the South-West and along the South Coast.

He suggesting that the number of stores sold might be around 300, reducing the chain to around 526 outlets.

The disposal proceeds could account for the bulk of the £700m-£750m which Newgateway has said it plans to raise. The sale of "non-core" parts of Gateway are also likely, although Mr Wood indicated that the Wellworth chain in Northern Ireland would probably be kept.

Isosceles, in reply to the Newgateway statement, retorted: "everytime they put the price up, it underpins the value of our equity "stub." In the wake of the announcement, Gateway shares climed 1½p to 238p.

Lex, Page 16

Daimler to raise around DM1.5bn

By David Marsh in Berlin

DAIMLER-BENZ, the West German motor conglomerate, is planning to raise capital through a one-for-ten rights issue to strengthen its financial resources, but no date for the transaction has been set.

Mr Edzard Reuter, the chairman, announced the long-awaited capital increase at the annual meeting yesterday, but pointedly said timing and conditions had not been fixed.

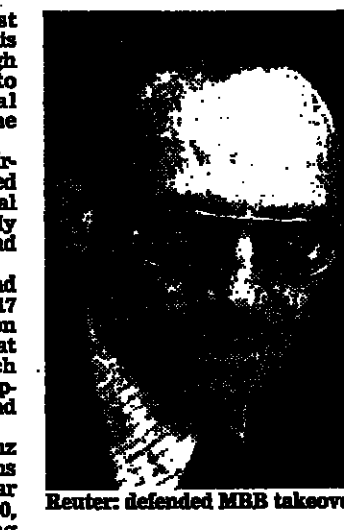
Issue of new shares at around yesterday's share price of DM717 would raise as much as DM3bn ($1.55bn). But it seems likely that the issue price will be much lower, making the amount of capital raised perhaps only around DM1.5bn, officials indicated.

Mr Reuter said Daimler-Benz turnover in the first five months rose 3 per cent to DM29.3bn. Car sales fell 8 per cent to 230,000, above all because of falling demand for diesel cars in Germany.

Mr Reuter, who is in the midst of a wholesale restructuring of the Daimler group, told shareholders that group profits in 1989 would be around the same as last year's net earnings of DM1.70bn. This compares with DM1.78bn in 1987 — a trend which he admitted might appear "disappointing."

Turnover in 1989 would rise only about DM1bn from last year's DM73.5bn.

In view of the company's earnings stagnation, a sizeable discount seems likely on the issue price of the new shares. Company officials said it was not yet certain whether the rights issue would take place in 1989 or 1990.



Reuter: defended MBB takeover

Mr Reuter defended again Daimler's planned takeover of Messerschmitt-Bölkow-Blohm (MBB), saying that the transaction — if approved by the Economics Ministry this autumn — would hardly add to the company's overall weight in the Federal Republic.

He said the European airliner venture to construct the airbus needed to be put onto a private sector basis. He saw the MBB takeover as a step in this direction.

Lex, Page 16

Italian groups forge three-company union

By John Wyles in Rome

ITALY'S FERRUZZI, Varasi and Cabassi groups are to bring together many of their interests in publishing, insurance and property in a single holding company to be quoted on the Milan stock exchange.

In a complicated operation, Isvim, a holding company owned by property-developer Mr Giovanni Cabassi, will be given two capital increases: the first, to be underwritten by the Varasi group, will take its capital from L12bn to L134.64bn while the second, to be underwritten by Mr Raul Gardini's Ferruzzi, will raise its capital to L382.9bn ($272m).

At the end of this exercise, Ferruzzi will hold around 40 per cent of Isvim, with the remainder equally divided between Cabassi and Varasi, the main interests of which are paints and inks.

Fifty-one per cent of the company will then be placed in a new holding, Finisvim, with half of this majority position held by Ferruzzi and half by Cabassi and Varasi. The minority holding will then be floated in Milan.

Of Finisvim's four divisions, the most important will be publishing. This will hold a 20 per cent stake in the Monti newspaper group, which this week passed 10 per cent of its equity to West Germany's Springer publishing group in exchange for an equivalent holding, together with Ferruzzi's 21.66 share of Rizzoli-Corriere della Sera, Italy's second largest publisher.

Its other activities will include the Ipsoa research and consultancy house and Buffetti, the national chain of stationary shops.

The insurance sector will wholly own Europa Assicurativa (Cabassi) and 51 per cent of Bavaria Assicurativa (Ferruzzi).

Gardini shows his hand, Page 18

Abbey confident of heavy subscription as offer ends

By Clare Pearson in London

THE £975m ($1,520m) offer of shares in Abbey National's £1.7bn stock market flotation closes this morning with the building society confident the issue will be more than fully subscribed.

The indications last night, after the passing of the 5pm deadline for hand delivery of application forms to branches, were that the level of subscription to the offer would be about 1¼ times.

Five receiving centres around the country are open to take last minute hand-delivered applications until 10am today, which is the deadline for receipt of forms sent by post.

Abbey will formally announce later this morning whether the issue has been fully subscribed. But the precise level of subscription, and the exact basis of allocation, will be announced in Monday morning's newspapers.

Abbey was confident enough about the level of subscription earlier this week to decide not to extend the offer deadline by a day, despite yesterday's rail strike.

It is, however, feared this may have delayed some postal applications.

Abbey is expected to say today that Lloyds, the receiving bank, will make efforts to count in those forms that were clearly posted in time but became delayed. It has also been providing replacement forms at branches for those people concerned about a postal delay.

Abbey National is set to join the market on July 12th as the final stage of its six-month long conversion from a building society to a public company.

Yesterday, IG Index, the bookmaker specialising in financial betting, was quoting a middle price of 153¼p for the closing level of the shares on the first day of dealing, an 18 per cent premium to the 130p offer price.

Some 750m shares are for sale to Abbey's 5.6m qualifying savers and borrowers and the society has said all those who apply validly are guaranteed at least 100 each.

In addition, members are being given free shares in the flotation.

Though branches stayed open till 8pm on Monday and Tuesday to cope with any late rush, Abbey members have been sending in their applications steadily and briskly throughout the last week of the offer.

The Cheapside branch in the City of London at 5pm yesterday was quietly winding down, with just a trickle of applicants wandering in. But an Abbey spokesman said that in Knightsbridge there had been long queues and some feverish pushing and shoving.

Rauma offer to raise FM537m

By Enrique Tessieri in Helsinki

RAUMA-REPOLA, Finland's second largest privately-owned company, plans to raise around FM537m ($123m) in a one-for-five rights issue of 22.38m new shares at FM24 apiece.

Rauma, an engineering and forest products group with net sales of FM9.7bn last year, will propose the issue at an extraordinary meeting of shareholders on August 8. The offer will be open from August 14 to September 22.

The company's share capital will be raised by FM223.8m from FM1.12bn to FM1.34bn. The 22.4m 288 shares will have a nominal value of FM10 and the premium generated would be FM313.8m.

Rauma added that within a year the company would seek authority from the board of directors to generate an additional FM120m through either a directed share issue, convertible bonds or warrant bonds.

The new capital generated from the rights issue and the yet-to-be-decided additional shares or bonds, which should total some FM340m, will be earmarked to help finance new acquisitions inside and outside Finland in the forest industry and engineering sector, Rauma said.

Rauma has also shown interest in either upgrading or building a new pulp mill that would replace the existing one in the city of Rauma that has an annual production of 170,000 tonnes.

Rauma has more than 70,000 shareholders and a market value of FM4.5bn.

French state sector posts approved

By George Graham in Paris

THE FRENCH Council of Ministers yesterday approved the nominations of a series of chairmen of nationalised banks and industrial companies, putting an end to weeks of uncertainty over the fate of some of the country's most controversial businessmen.

The Government reconfirmed Mr Alain Gomez for a third term at the head of Thomson, the defence and electronics group, despite a highly critical report from the state audit commission, published earlier in the week, on Thomson's involvement in the collapse last year of Al Saudi Banque.

Also reconfirmed were Mr Henri Martre, chairman of aircraft and missile maker, Aerospatiale, and the heads of the three state insurance companies.

The council also approved some already announced changes, including the replacement of Mr Jacques Stern at the head of the Bull electronics group by Mr Francis Lorentz and the nomination of Mr Loïk Le Floch Prigent instead of Mr Michel Pecqueur at the head of Elf Aquitaine, the oil group.

Comit and Paribas equity link delayed

By John Wyles in Rome

FORMAL APPROVAL by the board of Iri, the Italian state holding company, of the proposed exchange of shareholdings between Banca Commerciale Italiana and Paribas of France was blocked yesterday in an apparently co-ordinated move by four of Italy's five governing parties.

The move shocked, surprised and embarrassed Mr Romano Prodi, the Iri president, who had expected a trouble-free link-up between Italy's second largest commercial bank and the French merchant bank based on an exchange of 2 per cent shareholdings.

But when the proposal came to a vote six of the 10 board members present abstained, while only four, including Mr Prodi, voted in favour.

Those abstaining were the nominees of the Socialist, Social Democratic, Republican and Liberal parties, together with the representatives of the Treasury and the Ministry of Labour – both departments headed by Socialist ministers.

The stated reason for the abstentions was the need to "make an overall study of Banca Commerciale's foreign strategy." This will now be presented to the next board meeting at the end of July.

The real reason for the manoeuvre may not be unconnected with the political crisis and the the governing parties' aversion to endorsing any significant new initiatives.

The Paribas deal would reduce Iri's stake in Banca Commerciale from 59.4 per cent to 57.4 per cent.

Meanwhile, Iri was left worrying about the impact on its image and credibility abroad when it is constantly seeking new cross-border alliances.

Buy-out at Baltica

BALTICA Holding, the Danish insurance and finance group, is selling its Baltica Invest subsidiary to the unit's management after a decision by the Government that effectively puts a stop, says Baltica, to almost all forms of limited partnership share projects, writes Our Financial Staff.

Gardini shows his Enimont hand

John Wyles sifts speculation about the entrepreneur's motives

Mr Raul Gardini's announcement last week that in three years' time he intends to try to acquire full control of Enimont, the Italian basic chemicals joint venture he has set up with Eni, the state-holding group, has created alarm and division in Italy's caretaker Government and acres of speculation about his motives.

Most of the critical reaction has been belated realisation by some politicians of the extraordinarily good deal which Mr Gardini negotiated when it was agreed last year to merge the basic chemicals activities of his Montedison with those of the Eni subsidiary, Enichem.

Mr Carlo Francanzani, the Minister for State Shareholdings, and Mr Franco Reviglio, the Eni chairman, are under strong attack for an agreement which gives all the powers of creative initiative to Mr Gardini and most of the negative responsibilities to Eni and the Government.

The agreement allows for changes in the present 50-50 joint venture in three years, and the only obstacle to a Gardini bid to create a single Italian chemicals giant by merging Montedison's very profitable specialised chemical activities with Enimont would be a withholding of consent by Eni and the Government.

But this might not only appear to run against industrial logic; it would also mean the full renationalisation of basic chemicals, since Eni would be required to buy Montedison out of Enimont. In a nutshell, if Italy wants a fully integrated chemicals industry, it will have to be run by the private hands of Mr Gardini.

It is already being suggested that Mr Gardini has breached the agreement by declaring his intentions now rather than in the January 1-March 31, 1992, period stipulated by the accord. At the moment this is only a technical point which is of far less general interest than the question as to why Mr Gardini is being so premature.

The two most popular theories are either that he is trying

Raul Gardini: strengthening Montedison managerial band

to engineer his way out of the joint venture or that he is sending a very specific message to the former Enichem managers now holding key positions in Enimont. The "heading for the exit" school holds that with the chemicals cycle at its peak, Mr Gardini could probably get a much better price for the Montedison assets now than in three years.

This view is rejected by Ferruzzi insiders who believe that the one aspect of the bargain which Mr Gardini failed to win was on company structure and the distribution of management posts. It is said the Montedison managers inside Enimont are both complaining that they lack sufficient power and rubbishing the quality of many Enichem colleagues.

By coming out into the open now, Mr Gardini is both strengthening the Montedison managerial band, and encouraging the Enichem group to perform under the threat of a purge once he is in control.

In the meantime, Christian Democrat and Socialist ministers are at odds over the decree law, tailor-made for Mr Gardini, which gives him L825bn ($583m) of special tax deferrals he wants in connection with the Enimont deal.

This has to be renewed by July 14 and Mr Paolo Cirino Pomicino (DC), Minister for Public Employees, wants to amend it to thwart Mr Gardini.

Magnet buy-out 'not yet home and dry'

By David Waller in London

BANKERS TRUST, financial adviser to Mr Tom Duxbury and his boardroom buy-out team at Magnet, warned yesterday that the £629m ($980m) bid for the Yorkshire-based kitchen company was not yet "home and dry" in spite of the fact that the ordinary offer was declared unconditional earlier this month.

The latest acceptance figures were published yesterday, showing that shareholders with 85.3 per cent of the ordinary shares and 70.3 per cent of the convertibles have now endorsed the deal, up from 80.2 and 66.5 per cent at the fourth closing date earlier this month.

The £73m convertible offer has been extended until next Tuesday – under UK takeover rules the very last day that the deal can be declared wholly unconditional. Mr Colin Keer, managing director of Bankers Trust in London, said yesterday that it seemed increasingly unlikely that the convertible offer would win 90 per cent backing by then.

If acceptances fall short of this, a two-thirds majority (by value) of the financiers providing the funds for the leveraged transaction must give their approval for the deal to go ahead. Mr Keer suggested that the backers would be extremely unlikely to give their approval if acceptances failed to reach 75 per cent; he was hopeful that they would approve the deal if this level were reached.

The buy-out team has examined the technical aspects of living with a minority shareholding. Mr Keer said he thought it would be possible to take the company private so long as acceptances from ordinary shareholders topped 90 per cent; even if 25 per cent of the convertible shareholders refused to back the deal, that would only represent 2.5 per cent of the company as a whole.

The offer is widely thought to be something of a test-case for the future of buy-out bids in the UK.

Audit pushes Turkish trader into loss

By Jim Bodgener in Ankara

A MARGINAL loss has resulted from an audit by Arthur Young of the 1988 accounts of Turkey's leading trading house, Ram dis Ticaret, compared with the TL700m ($325,000) profits that emerged from the company's own internal audit for the year.

The discrepancy was due to different accounting principles, according to Mr Evren Artam, Ram general manager, yesterday. However, he admitted that the company had a difficult year in 1988, compounded by the discovery of a TL1bn fraud.

Subsequently, Mr Erol Kuntsal, Ram's accounting manager, was dismissed in March, along with three others in the accounts department.

Following the completion of investigations in May, the company's senior management was overhauled early last month through a series of resignations and transfers elsewhere within the parent company, Koc Holding, the nucleus of one of Turkey's largest industrial conglomerates.

No legal action is contemplated against the four employees, since they have pledged to pay back the missing funds. About half has been recovered so far.

The company led Turkey's other large trading houses with export sales of $472m in 1988.

INTERNATIONAL COMPANIES AND FINANCE

Rand Mines agrees rescue for unit

By Jim Jones in Johannesburg

RAND MINES, the South African mining group, has agreed a financial rescue package with the Government and creditor banks for its troubled East Rand Proprietary Mines (ERPM), but is still waiting for the Government to reply to a call for help for the Durban Deep Mine.

The ERPM financial rescue package includes capitalisation of about R67m ($24m) of interest payments until the end of 1992, the deferral of R280m in debt until the year 2002, provision of an additional R20m of debt capital by Rand Mines and direct financial assistance from the Government to cover the costs of pumping underground water. The Government has also agreed to extend its guarantees of loans from the commercial banks.

In Johannesburg yesterday, Mr Clive Knobbs, Rand Mines chairman, said ERPM could return to profits in a few years, provided the gold price averaged R33,500 a kilogram and increased in line with inflation. The mine is cutting its workforce to 9,900, from 11,600 in February and about 18,000 a year ago.

ERPM has abandoned low-grade areas in the older section of the mine and is concentrating its development effort on new, richer areas served by the far eastern vertical shaft. The milling rate fell to 140,000 tonnes/month in the March quarter and the mine produced 1,539 kilograms of gold.

Retrenchments and production cut form the core of Durban Deep's survival plan. It intends cutting its labour force to 3,600 from 8,000 and to abandon all but its richer and lower cost underground workings. Rand Mines Properties, a company in the Barlow Rand group, has offered to buy Durban Deep's extensive real estate interests or the mine's entire share capital.

During the March quarter, Durban Deep produced 1,448 kilograms of gold for the three months, at a monthly milling rate of 152,000 tonnes. The milling rate is to be cut to 80,000 tonnes/month. Harmony, the group's largest mine, which produced 7,199 kilograms of gold in the March quarter at a monthly milling rate of 790,000 tonnes, is reducing its workforce by 4,200 from 33,000.

Time wins initial battle with Paramount

By Anatole Kaletsky in New York

TIME YESTERDAY won the first skirmish in the legal war it is waging to complete its agreed merger with Warner Communications and thwart Paramount Communications' rival bid.

The Delaware Chancery Court denied a motion from three of Time's biggest shareholders, who had attempted to block the company's annual meeting tomorrow.

The Delaware Chancellor, Mr William Allen, said Time's management was under no obligation to send out new proxy materials for the meeting, even though Paramount had announced its $200 a share tender offer for Time after the proxy materials were sent.

The judgment was seen as significant, although by no means conclusive, by takeover speculators on Wall Street, because Chancellor Allen will be ruling next month on the much more important lawsuit Paramount has brought to block the Time-Warner merger.

Chancellor Allen has frequently taken the side of shareholders contesting actions taken by corporate boards, although several of his judgments have been overturned by the Delaware Supreme Court, which has been more sympathetic to existing managements.

The fact that Chancellor Allen was willing to uphold Time's decision to go ahead with its annual meeting appeared to strengthen the company's chances in the forthcoming Paramount suit.

Time's shares fell $2¼ to $160⅞ in response to the court ruling, reflecting Wall Street's doubts about whether Paramount will be able to press ahead with its $200 a share bid.

Warner shares gained $¾ to $59⅞, on hopes that Time would be allowed to buy half the company for $70 a share. Meanwhile Paramount jumped $1¼ to $60⅞ in very heavy trading, as arbitrageurs saw Paramount itself would become a takeover target if it failed in its bid for Time.

At Time's annual meeting on Friday, Paramount will try to challenge the re-election of four directors, including the chairman and president, but its challenge is given very little chance of success.

The next important confrontation is on July 11, when the first arguments are heard in the Time-Paramount lawsuit at the Delaware Chancery Court.

S African miners reject pay offer

SOUTH AFRICA'S black miners have overwhelmingly rejected wage increases offered by the country's gold and coal mine owners, but appear reluctant to strike in pursuit of their demands, writes Jim Jones in Johannesburg

Last week the Chamber of Mines made a revised offer to lift miners' wages by between 13 and 19 per cent, giving the union until yesterday to respond. There is considerable urgency to reach a deal since black wages are traditionally increased on July 1 each year.

The National Union of Mineworkers (NUM), which represents over half of the industry's 500,000 blackminers, called for mediation to resolve differences. In April the union opened the negotiations with demands including an effective doubling of the take-home pay of the lowest paid.

The chamber, which generally co-ordinates the employers' response, replied with an initial offer of 11 per cent but said this was negotiable even though the employers declared a dispute when the union.

Earlier this week Mr Cyril Ramaphosa, the NUM's general secretary, would not rule out strike action but added a ballot would have to be held.

Niche-market companies head computer group growth league

By Alan Cane

DRAMATIC growth rates among small, niche-market, computer companies and patchy performances by minicomputer manufacturers and telecommunications companies characterise the annual computer "top 100" list published by Datamation, the authoritative US data processing journal.

The fastest growing computer company in 1988 was the Nokia Data of Finland which showed a 166 per cent increase in revenues over 1988. It was helped by the acquisition of the information systems division of the Sweden's L.M. Ericsson.

In second place was Nynex of the US (up 139 per cent) which acquired AGS Computers, and in third place the relational database company Oracle, also of the US.

The biggest losers were: AT&T, the telecommunications giant, which was down $1.7bn because of the cost of upgrading its long-distance network; and Atari, the personal computer manufacturer, down $84.8m after a disastrous move into comnputer retailing.

Declines in the earnings of minicomputer manufacturers, Data General which saw a $48.9m fall in income and Norsk Data (minus $41.6m) and disk drive makers Micropolis (minus $19.4m) and Seagate Technology (minus $5.5m), reflect the speed at which technology in the computer industry is changing.

TOP 25 OF 1988 DATAMATION 100

Company	Information technology sales ($m)
IBM	55,002.8
Digital Equipment	12,284.7
Fujitsu	10,989.1
NEC	10,475.7
Unisys	9,100.0
Hitachi	8,247.6
Hewlett-Packard	6,300.0
Siemens	5,951.0
Olivetti	5,427.9
NCR	5,324.0
Groupe Bull	5,296.7
Apple Computer	4,434.1
Toshiba	4,226.6
Matsushita	3,441.0
Canon	3,391.6
Control Data	3,254.3
Wang	3,074.4
Nixdorf Computer	3,044.9
NV Philips	2,794.6
Xerox	2,650.0
AT&T	2,445.0
STC	2,425.1
Memorex-Telex	2,078.5
Compaq	2,065.6
Nihon Unisys	2,057.7

Conversion: Y128=$1

Five US companies, IBM, Digital Equipment, Unisys, Hewlett Packard and NCR, three Japanese, Fujitsu,NEC and Hitachi and two European, Siemens and Olivetti, made up the top 10 computer companies in 1988.

Sales of the top 100 companies totalled $243.1bn, an increase of 18.3 per cent over 1987.

Datamation points out that revenues rose by 18.7 per cent the previous year and says: "Profits rose 15.8 per cent – respectable, but pallid compared with the 27.2 per cent increase posted the previous year."

It adds that the creation of a single Europrean market after 1992 has not yet had an impact on the information technology spending patterns of European companies.

Europe accounts for the same 34 per cent of world computer sales that it did a year ago.

"What we are seeing is the calm before the storm," according to Mr Tim Mead, Datamation editor-in-chief.

"Once organisations in Europe determine their business strategies to take advantage of 1992, there will be a blizzard of investment in the computers and communications necessary to execute those strategies."

Datamation. Volume 35 No: 12, June 15 1989.

Merrill Lynch joins Manhattan exodus

By Roderick Oram in New York

MERRILL LYNCH has decided to move 2,600 back-office staff from Manhattan into New Jersey, incurring the wrath of Mayor Ed Koch who removed the firm as lead underwriter of New York City bonds.

The firm emphasised its headquarters, employing 13,000 compared with only 8,000 people 10 years ago, will remain in Manhattan.

Its loss of underwriting revenues amounts to only a few million dollars and seemed a gesture aimed by the mayor more at voters in his under-dog race for re-election.

Mayor Koch accused Merrill Lynch of negotiating in bad faith for subsidies and other cost-breaks to keep the jobs in the city. He has been successful with a $235m package last year which prompted Chase Manhattan Bank to move 4,300 staff from Manhattan to Brooklyn, another city borough, rather than across the Hudson River to New Jersey.

Merrill Lynch will take 550,000 sq ft and a 23 per cent equity interest in a 43 storey tower to be built on the riverside site of a former Colgate-Palmolive soap factory. The project is a further example of rapid revitalisation along the New Jersey bank of the Hudson.

The area is designated an urban enterprise zone eligible for job training grants, low interest loans and tax holidays. Hudson County, the local authority, claimed that the Merrill Lynch decision was a major victory in the tug of war with New York City over jobs.

In recent years several financial institutions have moved low-paying back-office jobs out of the city, joining an exodus of manufacturers which has reduced the city's industrial base.

Merrill retains top place in US debt underwriting

By Anatole Kaletsky in New York

MERRILL LYNCH retained its place as the top US underwriter of debt and equity securities in the first half of 1989, according to preliminary figures released by Securities Data Corporation.

However, Drexel Burnham Lambert emerged as Wall Street's top earner of underwriting fees because of its leading role in the record-breaking $4bn junk bond offering in connection with the leveraged buy-out of RJR Nabisco, the US food and tobacco group.

Merrill Lynch topped the underwriting league for the fourth half-year running, having wrested this position from Salomon Brothers in the first half of 1988.

Merrill Lynch led debt and equity issues worth $32.687bn, representing a 17.1 per cent share of the total underwriting market. In the first half of 1988, Merrill's underwritings were worth $21.664bn and its market share was 14.9 per cent.

The second biggest Wall Street underwriter was Goldman Sachs with a 12.4 per cent market share, followed by First Boston with 12 per cent and Salomon with 11.5 per cent.

The third and fourth positions were reversed a year ago, when Salomon had 13.9 per cent of the market, while First Boston trailed with 11.3 per cent.

YSL launches sales drive for stock market float

By George Graham in Paris

YVES SAINT Laurent, the fashion and perfumes group, yesterday launched the sales campaign for its FFr341m ($51.4m) stock market flotation, due to take place on July 6.

The company is placing 400,000 shares, or 11 per cent of its capital, on the Paris second market at a price of FFr853 a share, valuing the whole group at FFr3.29bn.

The offer capitalises Yves Saint Laurent at 18.8 times its forecast 1989 earnings of FFr175m, but the company's officials say the price/earnings ratio should be weighted to take account of a FFr1.1bn capital increase which took place only in June. On this basis the offer price is 15.4 times weighted earnings per share.

Mr Jean-Francis Bretelle, joint managing director of Yves Saint Laurent, said the price was in fact fixed by taking the average between the price of the capital increase and the price demanded by Cerus, the French investment company of Mr Carlo de Benedetti, for reducing its stake from 49.9 per cent to 14.9 per cent.

Cerus, which became a shareholder in 1986 when it helped Yves Saint Laurent to buy back its perfumes business for $631m, agreed to lower its stake from a position of virtual majority.

It asked in return for a capital gain of FFr200m on its initial investment, working out at FFr2379 for each of the 145,000 shares sold. The 1.145m shares of the capital increase, meanwhile, were sold at FFr700 apiece.

Mr Bretelle said the weighted average of the two prices appeared to offer a reasonable multiple of earnings.

Some analysts yesterday regarded the price as steep because of Yves Saint Laurent's relatively heavy debt burden and prospects for only steady earnings growth over the next few years.

Francois Dufour-Kervern, broker to the issue, on the other hand, calculated a value of FFr987 and forecast strong demand for the shares, though its conservative forecast for next year's earnings shows a gain of only 6 per cent from 1989's FFr55.5.

Some of Yves Saint Laurent's competitors, too, regarded the price as reasonable. "At 18 times earnings it is a very good buy. Yves Saint Laurent is a very good company, a fantastic name with a lot of future," commented Mr Henry Racamier, head of the Louis Vuitton luggage company which has recently acquired the Givenchy fashion business.

INTERNATIONAL COMPANIES AND FINANCE

HK property sold for pre-crisis price

HONG KONG-listed Cheung Kong (Holdings) has sold half of an industrial building on the Kowloon peninsula of Hong Kong to a unit of Jardine Matheson Holdings for HK$118m (US$15.1m), Reuter reports from Hong Kong.

Property analysts said the average price of HK$930 a square foot reflected the market before the June 4 massacre in central Peking, even though the sale was recorded on June 14.

Cheung Kong sold the basement up to the third floor, some 126,882 sq feet, of Hongkong Spinners Industrial Building in Cheung Sha Wan in eastern Kowloon.

Mr Nicholas Peacock, research director of Scrimgeour Vickers said it was difficult to analyse the price without knowing how the space would be used.

"If the building is going to be used purely for industrial purposes, the price sounds a bit high," he said.

Mr Percy Au-Young, research manager at DBS Securities said: "The ground-floor space always sells at a premium, so it boosts the average price per square foot."

Koito hits back at its predators

By Stefan Wagstyl in Tokyo

KOITO MANUFACTURING, the Japanese company under siege from Mr T Boone Pickens, the US corporate raider, and Mr Kitaro Watanabe, his Japanese ally, yesterday hit back at their assailants with a tough-talking American-style counterattack.

It made clear that its main adversary was not Mr Pickens but Mr Watanabe, a Japanese specialist in greenmail – whereby an investor buys a stake in a company to pressure that company to buy the stake back.

Mr Watanabe previously held the 20.2 per cent stake now owned by Mr Pickens' private investment company Boone Co.

Speaking to journalists on the eve of the company's general meeting today, Mr Takao Matsuura, Koito's president, restated his determination not to give any ground to Mr Pickens, who has demanded three seats on the Koito board.

In the best Wall Street tradition, Mr Matsuura was flanked by two US investment bankers supplied by Nomura Wasserstein Perella, the corporate finance company jointly owned by Nomura Securities, the Japanese securities house, and Wasserstein Perella, the New York mergers and acquisitions specialist.

The guiding hand of the men from Wall Street was visible in the information pack supplied by Koito. This came complete with up-to-the-minute facts and figures, a reprinted newspaper article entitled "Hostile takeover suspected as Boone Company cloaks move as 'investment barrier' problem," as well as a US government report about *yakuza*, or Japanese gangsters, entitled "The impact: organised crime today."

Koito said it had no reason to believe there was any connection between Mr Pickens and the *yakuza*. But it said it feared that *sokaiya*, *yakuza*-related racketeers who threaten to disrupt company meetings, might attend today's meeting.

Mr Matsuura concentrated on giving a stout defence of the trading record of Koito, a maker of car lights and other parts, with a turnover in the year to March of Y111bn ($787m).

Mr Pickens has demanded an investigation of the company's close links with Toyota Motor, the largest Japanese car maker, which owns 19 per cent of Koito and buys 45 per cent of its output.

Mr Matsuura said Koito dealt with Toyota in the same way as the other 10 Japanese car makers. He said the margins on sales to Toyota were the same as margins on the rest of Koito's output.

He went on to defend Koito's recent lacklustre profit performance saying the company had been forced to cut prices and costs in response to the rise in the yen.

This was the main reason why pre-tax profits fell last year from Y9.4bn to Y6.8bn. Mr Matsuura forecast a recovery in profits this year.

Koito might agree to cooperate with a shareholder who had discussed his plans with the company before buying his shares and who had something to offer, said Mr Matsuura. But Mr Pickens had no experience of the industry.

The press conference ended when Mr Matsuura left to prepare for today's meeting. Later, sources close to Koito, as they chose to identify themselves, launched into an attack on Mr Pickens' and Mr Watanabe's motives.

They pointed out that Mr Pickens bought his shares for Y3,375 each, paying a total of Y109.3bn for 32.4m, and acquiring them from Mr Watanabe. Mr Watanabe had previously tried to sell the shares at above-market prices to both Koito and Toyota, at different times in 1988.

Mr Pickens paid the equivalent of $840m for shares which are now worth over $1bn at the current market price of Y4,200-Y4,300. Funding this stake at current interest rates would cost Mr Pickens an estimated $92m a year, said the sources. The dividends were worth about $2m, so he was clearly not after income. But, said the sources, Mr Pickens could not hope to sell his shares without causing a collapse in the price. So, the conclusion was that Mr Pickens must have a contract to sell the shares back to Mr Watanabe, as is widely believed in Tokyo.

The sources denounced Mr Pickens' oft-repeated claim that Toyota has three seats on the Koito board. They explained that three former Toyota executives were on the board but had severed their links with the car maker when they left its employ, two of them 17 years ago and the third seven years ago.

The sources also rejected claims that Koito was discriminating against a foreigner in its treatment of Mr Pickens. "Koito has responded to Mr Pickens as to any Japanese greenmailer," they said.

Mr Pickens intended to put his case once more at today's company meeting. The meeting was expected to be a tense affair not only because of Mr Pickens but also because of the expected attendance of *sokaiya*. Ten people from Sogyo Dokokai, a *sokaiya* association, were due be present, as were five members of an extreme right-wing association. The police believe both groups are connected to Sumiyoshi Rengo, one of Japan's largest *yakuza* gangs.

INTERNATIONAL APPOINTMENTS

Halliburton makes changes at the top

HALLIBURTON, the large US oilfield services, engineering, construction and insurance concern, announced that Mr Thomas Cruikshank, the company's chief executive, has also been named chairman, a position unfilled since 1983.

Mr Cruikshank, 57, has been chief executive since 1983 and president since 1981.

Mr Dale Jones, 52, previously an executive vice president, has assumed the post of president, giving him a broadened corporate role on top of responsibilities for oilfield services.

The company last month reported a sharp fall in first-quarter earnings due to a drop in oil and gas exploration in the US, but expects a strengthening of oilfield markets in the second half of the year.

Mr Cruikshank said: "Dale Jones has played an important role in preparing the oilfield services sector well for business opportunities we foresee for the 1990s. He has led the oilfield services group in completing several major acquisitions and a restructuring of the group's businesses."

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THE NEW YORK Stock Exchange, looking ahead to the possibility of eventually starting off-hours trading, has created a new post of vice president, off-hours trading.

Appointed to this position is Ms Charlotte Lee, 35, who will be responsible for developing a strategic plan to prepare the NYSE for off-hours trading, should the stock exchange implement such a system in the future.

Mr John Phelan Jr, NYSE chairman and chief executive, said: "The future of world markets is global. Currently, global markets and 24-hour trading systems are not in place because the customers have not wanted them. But prudent planning suggests we should explore off-hours trading systems and be prepared if and when our customers want to trade around the clock."

Mr Donald Duewelke, 44, has been named senior vice president, fixed income markets.

* * *

AUDI, the up-market West German car producer which is part of the Volkswagen group, said that Mr Kurt Lauk will become its finance director and deputy chairman, subject to approval of Audi's supervisory board on July 5.

Mr Lauk, 42, will join Audi as soon as possible from W Schlafhorst, the Munchengladbach-based company, where he is a management board member. He will replace former finance director Mr Richard Bethold, who retired from Audi at the end of last year.

* * *

H.J. HEINZ, the US foods group which last week reported its 25th consecutive year of profits growth, named Mr R. Derek Finlay, who has been senior vice president-corporate development, as chief financial officer (CFO).

Mr Finlay will still be responsible for corporate development. His new post follows the resignation of Mr Karl von der Heyden, who was senior vice president-finance and CFO at Heinz, and has now become CFO of RJR Nabisco.

* * *

THE NEW YORK Federal Reserve Bank named Mr Chester Feldberg an executive vice president and assigned him to head the credit and capital markets group.

The 49-year-old Mr Feldberg succeeds Mr Stephen Thieke who, as already reported, is resigning with effect from August 1 to join J.P. Morgan.

INTERNATIONAL CAPITAL MARKETS

Chile deal signals lending shift

By Stephen Fidler, Euromarkets Correspondent

A COMPLICATED financing package for a $600m export-orientated pulp plant in Chile, part of which will be provided by new loans from foreign banks, was signed in Santiago yesterday.

The plant is one of three large projects designed to exploit Chile's natural advantage as a paper and pulp producer and convert it into an important exporter of forest products. As in the other two projects, the package signed yesterday was structured around funds provided by the International Finance Corporation (IFC), the World Bank affiliate whose aim is to encourage private sector development in developing countries.

The plant is being built by Celulosa Arauco y Constitucion, a joint venture between Copec, the largest distributor of fuel in Chile, and Carter Holt Harvey, the New Zealand forest products company. Operating since 1982, it now accounts for 70 per cent of Chilean pulp exports.

The Arauco financing is the most advanced of the three. As reported, financing for a $587m cellulose and paper venture, Celulosa del Pacifico, is now being put together.

Unlike the Arauco project it includes a large debt-to-equity swap which will reduce Chile's foreign debt by about $350m.

A third project is being developed by Citibank, Scott Paper of the US, and Shell Oil, which includes debt-to-equity finance. This $400m to $500m project involves the modernisation of an existing pulp plant.

The new Arauco plant will be built alongside the company's existing factory, reducing the overall costs, and its product will be exported entirely.

About $55m of the project financing comes from the IFC in the form of a senior long-term loan of $40m and a $15m subordinated financing.

A 7½-year loan has been syndicated among foreign banks. This will raise at least $40.5m, and possibly as much as $50m.

So far, eight banks have joined, including four from Sweden. The interest margin over money market rates on the loan is understood to be at commercial rates close to 2 per cent.

A further $130m of supplier credits is being provided by export credit agencies – including those from Canada, Finland, Sweden and France – and a DM30m loan from DEG, the West German development agency. About $105m will be provided through bond issues in Chile, $60m of which has been raised already, and another $240m will be provided by Arauco itself.

The provision by commercial banks of commercially based finance is seen as significant, even though it represents only a small part of the project finance.

It suggests that, in certain circumstances, new bank finance to Latin America is still possible, in spite of the international debt crisis which has badly hit the credit standing of Latin American countries.

Treasuries dip as profit-takers move in

By Karen Zagor in New York and Norma Cohen and Stephen Fidler in London

GOVERNMENT BONDS

IN SPITE OF an encouraging 1.2 per cent decline in May's leading economic indicators and a strong dollar, US Treasury bonds opened the day weakly as traders took profits.

In the early afternoon the bellwether 30-year bond was down ½ point at 108¾, yielding 8.11 per cent. The Fed conducted $1.5bn customer repurchase agreements in order to keep the weekly average within the 9½ to 9¾ per cent range. Fed fund were at 9⅝ per cent when the Fed entered the market.

The dollar stayed buoyant despite Fed support for the yen. At mid-day the dollar was Y142.95 and DM1.9645, against Y141.75 and DM1.956 late Tuesday in New York.

The decline in May indicators was greater than the 0.9 per cent most analysts had expected. Ten of the index's 12 components contributed to the downturn. April's rise in the indicators was revised to 0.6 per cent from 0.8 per cent.

■ YIELDS on Japanese government bonds rose sharply as the stock markets plunged on uncertainty surrounding the future of Mr Sousuke Uno, Japan's Prime Minister.

Press reports of Mr Uno's alleged sexual activities sparked rumours – immediately denied – that his resignation was imminent. But dealers said the reports of his involvement with various geishas had undermined public confidence in the ruling Liberal Democratic Party.

The benchmark No.111 JGB yield traded around 5.45 per cent late in the London day after closing on Tuesday at 5.39 per cent.

■ INITIAL enthusiasm for the UK government bond market faded as sterling's early gains eroded. Conventional government bonds rallied by ¼ point, with one of the benchmark long-dated government bonds – the 11¾ per cent of 2003-07 – falling briefly through the 10 per cent level.

Some retail selling emerged in the afternoon. The price of the 2003-07 closed up $\frac{1}{16}$ on the day at 112¾, yielding 10.01 per cent in moderate volume.

■ In West Germany a new bund will be announced next Monday and dealers are expecting a DM4bn 10-year issue with a 6¾ per cent coupon at a price of between 100 and 100¼.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		13.500	9/92	105-28	+1/32	11.26	11.58	11.20
		9.750	1/98	95-28	+4/32	10.49	10.71	10.37
		9.000	10/08	95-18	+2/32	9.50	9.70	9.36
US TREASURY *		9.125	5/99	106-11	-16/32	8.17	8.33	0.00
		8.875	2/19	108-08	-20/32	8.13	8.30	8.83
JAPAN	No 111	4.600	6/98	94.9035	-0.344	5.45	5.52	5.48
	No 2	5.700	3/07	104.8549	-0.341	5.18	5.19	5.11
GERMANY		7.000	2/99	101.7500	-0.050	6.74	6.87	6.98
FRANCE	BTAN	8.000	1/94	96.8833	+0.072	8.89	8.87	8.96
	OAT	8.125	5/99	96.5500	-0.140	8.65	8.64	8.82
CANADA *		10.250	12/98	105.1500	-0.350	9.41	9.53	9.76
NETHERLANDS		7.000	3/99	99.0500	-0.025	7.13	7.12	7.47
AUSTRALIA		12.000	7/99	91.5878	-0.101	13.58	13.66	13.93

London closing, *denotes New York morning session
Yields: Local market standard. Prices: US, UK in 32nds., others in decimal
Technical Data/ATLAS Price Sources

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on June 28

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Alberta 9¾ 95	600	102⅝	103	+0¼	+0⅝	8.75
Alberta 9⅞ 93	140	102¼	102⅝	+0¼	+0⅝	8.78
[illegible]						

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Canada 6⅜ 91	80	101	101¼	0	0	5.37
Canada 5⅝ 93	80	101	101¼	-0¼	+0¼	5.31
[illegible]						

[illegible]

Malaysia plans to raise $3bn

MALAYSIA will raise up to 8bn ringgit ($2.9bn) from its domestic markets to finance outstanding projects and for infrastructure to support surging private investment, Reuter reports.

Mr Mohamad Sheriff Mohamad Kassim, chief of the economic planning unit (EPU), said public investment would total 29.2bn ringgit in calendar 1989 and 1990, compared with 28.3bn in 1986-88.

He said that the domestic economy was strong enough for the Government to raise the resources.

This is the first time since 1983 that Malaysia has increased public spending, according to official figures.

Mr Sheriff said Malaysia could now afford to spend more because its economy had recovered strongly after the recession of 1985, when output fell 1 per cent.

The EPU, charged with long-term economic planning, projects growth in real domestic product of 7.3 per cent in 1989 and 6.7 per cent in 1990, compared with growth of 8.1 per cent in 1988.

Mr Sheriff said increased spending would not mean an increase in foreign loans, which totalled 46.7bn ringgit at end-1988. He added that the overall deficit would not be affected much by the increase in spending.

Simex proposes Euroyen contract

THE Singapore International Monetary Exchange proposes to launch a Euroyen three-month interest rate contract, Reuter reports.

No date has been set for the launch.

Mr J. Y. Pillay, of the Singapore Monetary Authority, said yesterday that the Tokyo Financial Futures Exchange (Tiffe), which is due to start trading Euroyen and Eurodollar futures tomorrow, and the advent of electronic trading on a global scale "would test our mettle."

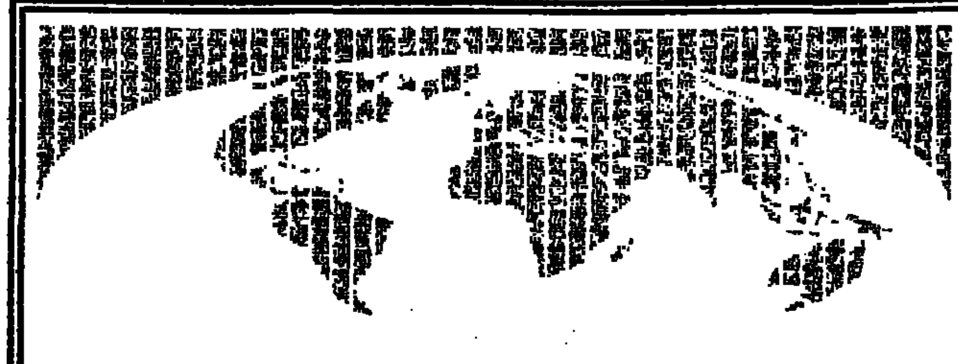
The intended Simex Euroyen contract was one response to the expected competition, Mr Pillay said.

Simex trades in fuel oil, Eurodollars, D-Marks, yen, sterling, gold, the Nikkei Stock Average index and in yen, Eurodollar and D-Mark options.

Budget extension for NZ futures

THE New Zealand Futures Exchange will open for trading from 7pm (0700 GMT) to 9.30pm on the night of Thursday July 27, when the Government presents its annual budget statement, Reuter reports.

The five-year government stock contract will open at 7pm and others will open progressively after that.



INTERNATIONAL CAPITAL MARKETS

Two building societies raise £300m in FRNs

By Katharine Campbell

IT WAS sterling's turn in the primary market yesterday, with three issuers hoping to take advantage of the currency's reprieve after Tuesday's better than expected monthly trade figures.

UK building societies Alliance & Leicester and Bristol & West both tapped the market for £150m with floating-rate notes offering a margin of 1/16 point above the London interbank offered rate, both priced at par. The former, led by Barings, carried a seven-year maturity, the latter, from J.P. Morgan Securities, was for five years.

Both met a firm if unexciting reception, probably helped by the fact the paper catered for slightly different maturity preferences. The Alliance deal traded on fees at 99.85 whereas the slightly more generous pricing of Bristol & West – an unrated and considerably smaller society – perhaps helped the paper trade just inside 16 basis point fees at 99.87.

The European Investment Bank £100m 10-year straight issue, priced to yield 38 basis points over comparable gilt-edged securities at launch, fared less well. Lead manager Baring quoted the paper just outside fees at a discount to issue price of 2.05 per cent.

Baring noted that the gilts prices retreated just as they brought the deal, but contended that it had gone well.

INTERNATIONAL BONDS

helped by considerable demand in the 10-year maturity range. Other market sources said the issue had struggled a bit.

Another deal caught on the wrong side of the underlying government market. Morgan Stanley's $300m 9.00 per cent bond for General Motors Acceptance Corp came after the announcement of May leading indicators for the US economy.

While the 1.2 per cent index dip was in line with market expectations, Treasuries responded with a price drop of about ¼ point in the seven-year range, leaving the GMAC issue prey to canine metaphors in sections of the market. It was another deal – following several in recent days – won after fierce price bidding by a group of half a dozen houses.

Unsurprisingly, the market judged GMAC's terms tight, and said the lead manager was supporting the paper just outside 2.00 per cent fees at a discount to issue price of less 2¼.

Brought at a spread to Treasuries of 73 basis points, the lead manager said his deal was trading "unfortunately a bit tighter, at a spread of 69 or 70 basis points."

In a deal for a more specialised audience, American Stores, issued a five-year $100m straight bond, at 135 basis points over equivalent Treasuries, reflecting its BBB minus Standard & Poor's rating.

J.P. Morgan Securities, the lead manager, said this was the first time a Eurobond had carried event risk clauses and financial covenants allowing investors to put the paper back to the borrower at par in the case of corporate activity, such as a takeover, or after material changes in certain financial ratios.

Some investors took advantage of the associated asset swap which yielded about 50 basis points over Libor.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
STERLING						
Alliance & Leicester(a)‡♦	150	1/16	100	1996	15/7bp	Baring Brothers
Bristol & West(b)‡♦	150	1/16	100	1994	16/8bp	J.P. Morgan Secs.
European Investment Bank(c)♦	100	10½	98.55	1999	2/1⅜	Baring Brothers
US DOLLARS						
General Motors Acc.Corp.(c)♦	300	9	101.425	1996	1⅞/1¼	Morgan Stanley Int.
American Stores(c)♦	100	9¾	101.80	1994	1⅞/1¼	J.P. Morgan Secs.
Industrial Bank of Japan(d)♦	80	9⅜	102¼	2004	2¼/1½	IBJ Int.
Bergen Bank(g)♦	10	15	101⅜	1992	1⅜/⅞	IBJ Int.
Gakken Co.Φ	100	(4½)	100	1993	2¼/1½	Yamaichi Int. (Europe)
SWISS FRANCS						
CNT(e)♦	150	5¾	102	1999	n/a	UBS
Control Securities Fin.(c)♦	100	7½	100	1994	n/a	S.G. Warburg Soditic
Mikasa Coca-Cola(f)★★§	40	½	100	1993	n/a	Credit Suisse

★★Private placement. ΦWith equity warrants. §Convertible. ‡Floating rate notes. ♦Final terms. a) 1/16 ovewr 3-month Libor. Call at par from 1994. b) 1/16 over 3-month Libor. c) Non-callable. d) Additional $6 0m on tap. Non-callable. e) Call after 5 years at 102. f) Yield to put 4.079%. g) Redempt ion linked to oil-price(W.Texas intermed.crude oil).

Austrian bank in $205m global issue

THE Austrian bank Oesterreichische Kontrollbank is launching a $205m global medium-term note programme under which 10-year securities will be simultaneously offered in the US and Europe, writes Norma Cohen.

Morgan Stanley, the arranger, said the programme would be expanded beyond $300m with shorter maturities to be included. While the spread over comparable maturity US Treasuries, at 53 basis points, is the same in both the US and European tranches, the securities carry different characteristics and are not fungible with each other.

The $75m tranche of US securities carry semi-annual coupon payments, a 8.70 per cent coupon and are in registered form. The $130m tranche of Euro-securities have annual coupon payments of 8.89 per cent and are in bearer form.

The Euro-tranche is also the first to extend maturities of MTNs out to 10 years. Previous issues have been concentrated in the three- to five-year area.

Riksbank governor turns revolutionary

On the eve of deregulation, Sweden's chief central banker talks to Robert Taylor

MR Bengt Dennis, governor of Sweden's central bank for the past six and a half years and chief architect of his country's financial revolution, is looking forward to next Monday – the day Sweden's financial markets move into a brave new deregulated world – with equanimity.

The decision to remove all exchange controls from July 1 has not caused as much controversy as Mr Dennis had feared. It has been regarded almost as a fait accompli and only the LO, the powerful blue-collar trade union movement, seems upset. But criticism from that quarter is something Mr Dennis has learned to live with.

His authority has been strengthened considerably this year. Under Swedish law the governor's three-year term has been extended to five years. As Mr Dennis says: "This will give a much greater independence to the central bank. It has been widely accepted. I worked hard to achieve the change."

The move should help lift the Riksbank, as Sweden's central bank is known, above the heat of party political battles, strengthening its position in deciding Swedish financial policy.

Mr Dennis has proved himself to be a remarkably forceful and agile governor, an astute player in the complex network of close personal relations that bind together the diverse members of the ruling Swedish establishment.

It is his crucial alliance with Mr Kjell-Olof Feldt, the country's Finance Minister, that has shaped Swedish financial strategy during the 1980s. The liaison dates back a long time, to their activist student days together in the Social Democratic party when Mr Dennis was reading social economics at Stockholm University.

In 1967, when Mr Feldt was appointed under-secretary of state at the Ministry of Finance, he recruited Mr Dennis to head of division in the budget department and on his promotion to the Commerce and Industry Ministry he took Mr Dennis with him as his under-secretary of state.

Mr Dennis denies that he meets Mr Feldt regularly to plan financial policy but, as he admits: "There is no reason for us to do that. We know each other's minds.

A SPECIAL committee is to examine whether Sweden needs a turnover tax on capital market transactions, Reuters reports. According to the Foreign Ministry, the committee is expected to complete its findings by May 1990.

It is to examine tax matters relating to the entire financial sector. The ministry said it should also consider how the turnover tax and stamp duty should be handled in the future and whether there was still a need for these special measures in the financial sector. The committee will submit any proposals to the Finance Department.

The Government is carrying out a reform of the Swedish tax system. The ministry said the new committee's task was to make the tax system in the financial sector more uniform. "If system can be achieved, the need for indirect taxes and the turnover tax in various areas would diminish."

"As long as we agree on our basic analysis we don't have to consult all the time."

However, Mr Dennis does not always win the argument with Mr Feldt. He does not disguise his dismay, for example, at the recently introduced turnover tax to coincide with the abolition of exchange rate controls. "The net result has been to accelerate the movement of financial business out of Stockholm to the money markets of London and Luxembourg.

"An early signal from the Government to lift the turnover tax would be helpful," he says diplomatically. He shares the fears of the banking world that continuation in a regime without exchange controls will denude Stockholm of valuable bond market business.

The governor is well respected by bankers and brokers even though he is not really one of them. He admits: "I am a rather funny animal. I don't consider myself as an economist at all, perhaps journalism is really my true profession."

He spent 14 years working in the media, mainly as a business and political journalist in the Social Democratic press and on Swedish radio, ending up as editor in chief of Dagens Nyheter, Sweden's leading liberal party newspaper.

His media experience has helped him cultivate a prominent profile in Sweden. Consequently he is better known to the outside world than his more reserved predecessors used to be.

When he arrived at the bank in September 1982 with the return of the Social Democrats to power after six year's absence and a 16 per cent devaluation in the krona, Mr Dennis inherited severe domestic difficulties. These had been caused by a huge government budget deficit and a massive increase in the money supply.

He has proved to be a stern

Bengt Dennis: 'I don't consider myself an economist at all'

believer in fiscal rectitude. "One of the best decisions of our monetary policy was to ensure that the Government did not borrow abroad," he recalls. "That move was due to our initiative and it won parliamentary support in 1984. It has acted as a corset supporting a necessary discipline in economic policy."

He also believes it helped to stabilise exchange rate expectations and generate confidence in exchange rate policy. Without the ban, Sweden would have gone on in the same profligate manner it had done in the 1970s.

During his years as governor he has taken Sweden on a long march away from regulation to a much freer economy. Paying a tribute to his predecessor, Mr Dennis argues it was the introduction of Treasury bills in the middle of 1982 that marked the first significant move towards financial liberalisation.

It was three years later that he made the next significant move with the abolition of all controls on bank lending. He also introduced a sliding scale of interest rates for the central bank's lending to banks.

In August 1987 the Riksbank gave Swedes the go-ahead to invest in certain foreign shares without having to pay a heavy premium. This was followed three months later by its decision to allow the wider ownership of foreign shares by Swedish residents, enabling Swedish property and real estate companies to invest overseas.

"A year ago I decided that we should not go so fast, but in fact the timetable has speeded up," says Mr Dennis. In the aftermath of last September's general election victory for the Social Democrats the pace of financial reform quickened noticeably when it was announced that foreigners would be allowed to invest in Swedish government bonds for the first time and Swedish investors would be given total freedom to invest in foreign equities and real estate.

The deregulation has had a dynamic impact on the Swedish banking system. Mr Dennis says it has increased healthy competition in financial services to the benefit of household borrowing. The securities and bond markets and option markets have all prospered.

With the abolition of foreign exchange controls Mr Dennis envisages an acceleration in mergers and acquisitions.

Over the past six months in particular the other Nordic countries have been a prime target for Swedish finance houses. The governor also believes the bond market, once free of exchange controls, will experience rising volume.

Mr Dennis has his sights set on more radical action; to dismantle Swedish restrictions that impede the inward movement of foreign investment and ownership.

"There has been a rather protectionist attitude towards foreign companies who want to acquire a Swedish business or buy a stake in a Swedish company in the financial field," he admits.

Some changes have already taken place to relax such controls. Since 1985 foreign banks have been allowed to establish subsidiaries in the Swedish market and there are now 10 foreign-owned banks operating in the country.

In the autumn parliament plans to pass legislation to enable foreign banks and other financial institutions to open branch offices in Sweden from next January. At the same time non-residents will be allowed to own shares in Swedish banks and other financial institutions, although an upper limit will be set for the level of foreign participation.

Mr Dennis does not rule out action later in the year to provide foreign companies with the opportunity to establish finance and stockbroking companies in Sweden. But the opening up of the economy to the possibility of foreign ownership of Swedish industry remains a sensitive issue.

Mr Dennis recognises that over the past decade, in particular, the large Swedish multinationals have expanded their overseas business activities rapidly. The move towards reciprocity inside the European Community will make it difficult for Sweden to perpetuate its present obstacles to foreign penetration for much longer.

The challenge of the EC's drive to a free internal market by 1992 has provided the governor with a far stronger set of arguments to justify his long-term liberalisation strategy.

Closer financial links with the EC do not trouble him and he adopts a highly pragmatic view of the prospect that Sweden might eventually join the European Monetary System.

"If we can get our cost inflation under control and productivity going up, then the time will be ripe for a serious discussion about that question."

The extent of the financial revolution is often unrecognised outside Sweden.

It is not just the radical change in the tax system from January 1991, with the shift of the burden from individual incomes and on to capital and services, which Mr Dennis supports so strongly. He also speaks approvingly of a cut in agricultural subsidies that will open up Sweden's markets

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

	EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Wed Jun 28 1989 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act. at (25%)	Est. P/E Ratio (Net)	xd adj. 1989 to date	Tue Jun 27 Index No.	Mon Jun 26 Index No.	Fri Jun 23 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (206)	969.66	+0.5	10.80	4.05	11.38	14.74	965.25	960.61	959.88	780.35
2	Building Materials (29)	1197.80	+0.3	11.06	4.32	10.41	22.32	1194.73	1184.59	1190.75	1008.48
3	Contracting, Construction (37)	1628.73	——	14.48	4.31	9.06	30.72	1629.66	1638.91	1640.82	1592.81
4	Electricals (9)	2851.34	-0.5	8.37	4.04	14.74	50.60	2866.13	2860.81	2867.43	2086.57
5	Electronics (31)	2227.67	+0.8	8.50	3.10	15.35	23.92	2208.93	2202.14	2190.91	1765.44
6	Mechanical Engineering (54)	535.04	+0.2	9.94	3.97	12.37	8.04	534.14	531.61	531.14	406.54
8	Metals and Metal Forming (7)	522.17	+0.7	19.18	5.73	5.74	3.82	518.48	517.21	519.93	473.93
9	Motors (17)	329.47	+0.2	11.28	4.61	10.41	6.83	328.98	328.07	327.58	278.69
10	Other Industrial Materials (22)	1659.48	+1.1	9.06	4.16	13.17	26.35	1641.79	1621.59	1614.24	1314.96
21	CONSUMER GROUP (187)	1250.48	——	8.85	3.61	14.13	17.90	1250.68	1240.60	1237.19	1093.44
22	Brewers and Distillers (22)	1368.40	+0.2	9.93	3.54	12.65	19.41	1365.73	1350.29	1351.85	1115.82
25	Food Manufacturing (20)	1105.25	-0.1	9.19	3.78	13.62	17.13	1106.41	1099.71	1098.64	989.45
26	Food Retailing (15)	2367.25	-0.7	8.53	3.22	15.39	25.59	2382.82	2389.37	2399.55	2023.57
27	Health and Household (14)	2297.53	-0.3	6.46	2.59	17.59	21.50	2305.37	2280.83	2245.00	1862.97
29	Leisure (33)	1669.74	+0.4	7.62	3.39	16.44	22.85	1663.78	1658.62	1651.07	1345.25
31	Packaging & Paper (15)	565.30	+0.4	10.28	4.34	12.31	8.15	562.96	561.74	563.46	528.93
32	Publishing & Printing (19)	3569.55	——	8.62	4.65	14.63	71.88	3568.65	3558.35	3577.30	3436.07
34	Stores (34)	829.89	+0.3	10.95	4.34	11.95	14.98	827.67	814.34	811.16	804.32
35	Textiles (15)	542.39	+0.6	10.92	5.35	10.96	13.42	539.35	539.51	536.71	601.92
40	OTHER GROUPS (93)	1143.65	-0.5	9.97	4.11	12.20	13.55	1149.32	1136.65	1127.55	910.35
41	Agencies (17)	1421.89	+0.1	7.07	2.29	17.50	14.91	1420.88	1423.63	1413.26	1162.86
42	Chemicals (22)	1317.46	-0.6	10.82	4.52	10.90	26.38	1325.86	1309.31	1296.39	1095.15
43	Conglomerates (12)	1669.61	+0.1	10.09	4.86	11.67	20.16	1667.77	1649.23	1641.71	1207.71
45	Transport (13)	2482.67	——	8.50	3.63	15.30	39.22	2481.62	2460.82	2440.68	1981.32
47	Telephone Networks (2)	1113.80	-1.6	11.20	4.46	11.58	2.76	1132.16	1109.82	1098.54	1081.86
48	Miscellaneous (27)	1672.82	——	9.53	3.58	11.91	23.26	1672.31	1665.93	1652.92	1172.11
49	INDUSTRIAL GROUP (486)	1168.21	——	9.71	3.87	12.71	16.18	1168.49	1159.11	1154.82	975.96
51	Oil & Gas (14)	2155.12	+1.4	9.86	5.19	13.48	51.14	2125.53	2092.44	2066.16	1847.66
59	500 SHARE INDEX (500)	1251.62	+0.2	9.73	4.05	12.81	19.04	1249.56	1238.29	1232.26	1049.76
61	FINANCIAL GROUP (124)	741.90	+0.3	–	5.30	–	17.62	739.63	731.38	731.10	710.31
62	Banks (8)	742.58	+0.6	24.00	6.44	5.47	21.71	737.82	724.43	724.40	682.68
65	Insurance (Life) (8)	1068.22	+0.3	–	5.59	–	29.86	1064.62	1058.31	1059.82	1060.62
66	Insurance (Composite) (7)	584.54	+0.4	–	6.16	–	16.75	582.14	572.85	567.09	546.98
67	Insurance (Brokers) (7)	980.35	+0.8	7.70	6.39	17.46	31.63	972.19	959.20	954.85	1008.73
68	Merchant Banks (11)	335.17	+0.8	–	4.63	–	5.93	332.60	328.72	328.75	359.90
69	Property (52)	1314.99	-0.4	6.33	2.91	20.13	15.98	1320.39	1316.20	1318.73	1225.41
70	Other Financial (31)	356.47	+0.5	11.52	6.05	11.05	8.02	354.69	353.95	356.37	387.69
71	Investment Trusts (70)	1167.84	+0.3	–	2.81	–	14.25	1164.79	1159.09	1152.68	907.88
81	Mining Finance (2)	664.02	-0.5	8.69	3.87	12.81	10.45	667.12	664.66	663.96	521.13
91	Overseas Traders (8)	1334.14	+0.4	11.29	5.56	10.08	35.07	1328.68	1321.28	1324.39	1159.16
99	ALL-SHARE INDEX (704)	1126.69	+0.2	–	4.20	–	18.53	1124.67	1114.48	1109.89	968.98

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Jun 27	Jun 26	Jun 23	Jun 22	Jun 21	Year ago
FT-SE 100 SHARE INDEX‡	2209.4	+3.0	2225.6	2206.2	2206.4	2179.6	2167.5	2180.0	2172.2	1855.1

FIXED INTEREST

	PRICE INDICES	Wed Jun 28	Day's change %	Tue Jun 27	xd adj. today	xd adj. 1989 to date
	British Government					
1	5 years	117.35	+0.20	117.12	–	6.18
2	5-15 years	131.41	+0.29	131.02	–	6.96
3	Over 15 years	142.69	+0.14	142.50	–	7.09
4	Irredeemables	164.13	+0.21	163.79	–	7.32
5	All stocks	129.57	+0.24	129.25	–	6.81
	Index-Linked					
6	5 years	136.34	+0.33	135.89	–	1.36
7	Over 5 years	133.84	+0.49	133.19	–	1.88
8	All stocks	133.91	+0.47	133.28	–	1.82
9	Debentures & Loans	112.87	+0.10	112.76	–	5.91
10	Preference	87.64	+0.06	87.59	–	3.10

	AVERAGE GROSS REDEMPTION YIELDS		Wed Jun 28	Tue Jun 27	Year ago (approx.)
	British Government				
1	Low	5 years	9.95	9.98	9.39
2	Coupons	15 years	9.41	9.44	9.49
3		25 years	9.26	9.28	9.27
4	Medium	5 years	10.81	10.90	9.84
5	Coupons	15 years	9.88	9.90	9.69
6		25 years	9.46	9.47	9.47
7	High	5 years	10.95	11.04	9.92
8	Coupons	15 years	10.10	10.13	9.86
9		25 years	9.66	9.66	9.56
10	Irredeemables	†	9.30	9.32	9.48
	Index-Linked				
11	Inflation rate 5%	5yrs.	3.75	3.84	2.80
12	Inflation rate 5%	Over 5 yrs.	3.72	3.75	3.86
13	Inflation rate 10%	5 yrs.	2.96	3.05	1.79
14	Inflation rate 10%	Over 5 yrs.	3.55	3.58	3.70
15	Debs &	5 years	12.00	12.01	10.81
16	Loans	15 years	11.68	11.69	10.79
17		25 years	11.35	11.37	10.77
18	Preference	†	10.32	10.32	9.59

‡Opening index 2224.0; 10 am 2224.5; 11 am 2213.6; Noon 2213.6; 1 pm 2207.7; 2 pm 2210.9; 3 pm 2209.5; 3.30 pm 2208.8; 4 pm 2209.5 (a) 9.11am (b) 12.50pm † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 34p. All indices are based on prices taken at 4.07pm close.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	90	6	10
Corporations, Dominion and Foreign Bonds	9	1	32
Industrials	329	344	915
Financial and Properties	179	107	375
Oils	32	11	50
Plantations	0	0	12
Mines	30	18	128
Others	70	79	94
Totals	739	566	1,616

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. date	1989 High	1989 Low	Stock	Closing Price	+ or -	Net Div.	Times Cov'd	Gross Yield	P.E. Ratio
£140	F.P.	-	178	140	‡Alan Paul 5p	171	+1	12.5	2.6	1.9	20.6
£110	F.P.	-	116	111	‡Allen	112	+1	14.2	2.8	5.0	8.7
165	F.P.	-	213	198	‡Ball (A.H.) 5p	213		L6.8	1.9	3.8	17.0
£100	F.P.	-	126	108	‡Boxmore Intl. 10p	118		u5.2	1.9	5.9	11.4
175	F.P.	-	201	185	Butler Cox 5p	198	+1	14.0	2.5	2.7	18.5
180	F.P.	23/6	218	180	Community Hospital £1	218	+1	R4.5	1.4	2.8	19.9
Fl.47	F.P.	-	£17½	£16¼	DAF N.V. Fl.5	£16¾	-¼	H02.5	1.8	4.2	13.1
85	F.P.	-	96	84	‡Diamond Group Hldgs 5p	95		L1.13	4.7	1.6	17.7
50	F.P.	-	65	56	Doncion Tyson 10p	60	+1	u0.75	1.6	1.7	50.2
130	F.P.	-	142	130	‡Faspel Trading 5p	133		L4.88	2.4	4.9	10.2
£160	F.P.	-	183	179	Sowings 10p	181		6.66	1.5	4.9	18.3
160	F.P.	-	185	160	‡Hadleigh Inds. 50p	183	+3	4.5	3.1	3.3	10.8
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1989 High	1989 Low	Stock	Closing Price £	+ or -
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1989 High	1989 Low	Stock	Closing Price p	+ or -
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible] Prospectus or other official estimates for 1989. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on Prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989/90. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ¥ Issued by tender. ♦ Offered to holders of ordinary shares as a "rights". † Introduction. ‡ Placing price. †† Reintroduction. ♦ Issued in connection with reorganisation merger or takeover. ‡ Allotment price. ‡ Unlisted securities market. ♦ Official London listing. ◻ Including warrants entitlement. * Third Market.

TRADITIONAL OPTIONS

- First Dealings Jun 26
- Last Dealings July 7
- Last Declarations Sep 28
- For settlement Oct 95

For rate indications see end of London Share Service

Calls in AT Tel, Medirace, Whitegate, Bula, Premier, Bougainville, Atlantic Res, Dixons, AMI Hlthcare, Norfolk Cap, Tuskar. Puts in Ald Restaurant, Amber Day. P/C Oliver Res.

LONDON TRADED OPTIONS

BRITISH GAS took the limelight in the London Traded Options Market yesterday, attracting 5,396 contracts, made up of 4,928 calls and 468 puts. The underlying price of the share gained 2p to 195p, on a day when transport difficulties brought an early closing of the main market. The options market finished its dealings at the usual time of 4.05pm.

There was, along with the underlying share price movement, net closing of open interest on the call side, and opening on the put. The overall open position on the calls fell 834 contracts to 32,300, while that on the put rose 368 to 29,987.

It was a fairly busy day in general, perhaps explained in part by it being expiry day in individual stocks, including British Gas. Total turnover reached 47,578 contracts, consisting of 35,525 calls and 12,053 puts.

Trading in the FT-SE 100 index, which has a June expiry tomorrow, amounted to 10,328 contracts, made up of 5,975 calls and 4,353 puts. The June 2,200 call stood out, finding 1,145 contracts and a closing of open position of 248 contracts to 3,552.

On the whole there was some closing of call positions, of 229 to 47,416, and some opening of interest on the put side of 1,767 to 61,913. There were 651 contracts traded in the August 2,200 puts, involving opening of interest of 346 contracts to 1,108.

The British Gas turnover was concentrated in four series: the June 180 calls attracting 2,026 contracts and a closing of interest of 1,098 to 6,715; the September 180 calls with closing of interest of 538 to 5,340; and the September 200s openings of 610 to 4,501 on the back of 1,709 contracts. The December 200 puts saw 480 contracts and an opening of position of 360 to 1,425.

Trusthouse Forte found 2,619 calls and 168 puts in a total of 2,786, while Rolls-Royce attracted 2,484 calls and only 4 puts. GEC and Dixons claimed some interest, mainly on the put side.

Option		CALLS Jul	Oct	Jan	PUTS Jul	Oct	Jan
Allid Lyons (*462)	420	47	64	71	1½	5½	10
	460	13	32	44	11	17	21
	500	3	15	22	40	41	56
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Option		CALLS Jul	Oct	Jan	PUTS Jul	Oct	Jan
Shell Trans. (*434)	390	51	58	73	1½	6	9
	420	22	33	46	5	10	15
	460	5	14	26	29	33	35
Storehouse	140	16	20	24	4	6½	8
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Option		CALLS Aug	Nov	Feb	PUTS Aug	Nov	Feb
Scot. & New (*328)	300	31	43	50	5½	11	13
	330	11	24	33	1½	22	25
	360	4	12	21	37	39	43
Tesco	160	29	33	41	1½	2½	4
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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COMPANY NOTICES

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Floating Rate Debentures due 2005

In accordance with the terms and conditions of the Debentures, the interest rate for the period 30th June 1989 to 31st July 1989 has been fixed at 9%. per cent per annum. On 31st July, interest of US$8.234375 per US$1,000 nominal amount of the debentures will be due for payment. The rate of interest for the period commencing 31st July 1989 will be determined on 27th July 1989.

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UK COMPANY NEWS

Hanson sells US restaurant chain

By Nikki Tait

HANSON, the UK conglomerate which is currently making a £3.1bn bid for British-based mining group Consolidated Gold Fields, yesterday announced the sale of its Ground Round restaurant chain in the US.

The business is being bought by International Proteins Corporation, a food and agriproducts company which is quoted on the American Stock Exchange. Hanson already holds a nine per cent stake in IPC, which it says was acquired as an investment a couple of years ago.

Mr David Clarke, president of Hanson Industries, the conglomerate's US arm, is also chairman of International Proteins, a role he took on in 1988.

Under the deal, Hanson receives a cash payment of about $53m and 2.85m new shares in IPC. This will raise Hanson's stake in the purchasing group to 49 per cent.

Yesterday, IPC shares rose 25 cents to $14¾, valuing the share element of the purchase price at $42m, and the total consideration at $95m.

Ground Round came into Hanson with the conglomerate's acquisition of the UK-based Imperial Group in 1986. It is based in South Weymouth, Massachusetts, and comprises a 215-strong chain of restaurants in 22 states. Of these, 178 are owned or operated and 37 are operated under franchise.

In the year to end-September, Ground Round made a pre-tax profit of $7.4m on sales of $209m. Net assets are around $55m.

The sale is the latest in a string of disposals by Hanson, a number of which have involved its food and food-related businesses.

Last year, it parted with the likes of Ross Young's, HP Foods and Lea and Perrins, and Durkee Foods. In the current year, disposals on the food side have included Hygrade Foods and a management buy-out of Elizabeth Shaw, the confectionery company.

The deal substantially increases the size of IPC which currently has interests in tuna, cottonseed, fish meal and shrimps. Its 1988 revenues were $147m, and pre-tax profits, $6.2m.

Swedes safety query over Sealink ferry plan

By Andrew Hill

STENA, the private Swedish ferry company which wants to buy Sealink British Ferries, yesterday cast doubt on the safety of two roll-on, roll-off vessels which Sealink is to convert for the busy English Channel crossing.

Sealink's parent, Bermuda-registered Sea Containers, is fighting an $824m hostile takeover bid from Stena and Tiphook, a UK container rental company. If successful, Tiphook would receive the container business and Stena the rest, including Sealink and the Hoverspeed hovercraft business.

Sea Containers' president, Mr James Sherwood, will today announce details of refits for two ships at a press conference in London.

The ships, Fantasia and Fiesta, were built in 1980 for use principally as freight vessels. Sealink bought the ships from their Bulgarian owners and will convert them into "jumbo ferries", with a capacity of 1,800 passengers, for the shortest Channel routes.

But Stena pointed out yesterday that a third vessel of similar specification, built by the same Swedish shipyard, capsized soon after it was commissioned. The Swedish authorities subsequently imposed severe restrictions on the handling of the ships.

Mr Sherwood will unveil new safety measures for the vessels at today's meeting, aimed at making the ships the safest afloat, according to Sea Containers.

The group added yesterday that Sealink would improve the ships' stability "in excess of current national and international regulations", by extending the ferries both above and below the water line.

Stena wants to upgrade the Channel service and said yesterday it might transfer two Stena Line vessels to those routes if its bid succeeds. At the moment, Jutlandica and Danica ply between Sweden and Denmark, offering a cruise-style ferry service to as many as 2,300 passengers each.

Sealink's main rival, P&O European Ferries, already operates large "superferries" on the Channel routes.

Burmah to sell US arm for £12m

By Andrew Hill

BURMAH OIL, the lubricants group, is to sell its US-based water management businesses for a total of about £12m.

Burmah Technical Services, part of the group's speciality chemicals subsidiary, will be split into two parts for the sale to two separate US groups.

The water treatment chemicals operation has been sold to Aquatec Chemical International.

National Environmental Testing – a US subsidiary of UK-based Ocean Transport & Trading – will buy Burmah's analytical laboratories business which offers a testing and analysis service.

Richmond Oil's £68m price tag

By Clare Pearson and Edward Sussman

RICHMOND OIL & GAS, a UK company planning to exploit natural resource interests which it owns in the southern states of the US, is coming to the main market in a £20m offer for sale that values it at £68.25m.

The company is offering 20m shares, representing 30.8 per cent of the enlarged equity, at 105p per share to provide a net £19.46m of new money. Of the proceeds some $20m will be used for the drilling programme and the rest will go on acquisitions and working capital.

Dallas-based Richmond has proven reserves, about 90 per cent of which are gas, with a net worth of $80m and probable reserves amounting to $67.4m.

The company was founded two years ago by Mr Michael Wilkinson, a British stockbroker who is now a director of Corporate Broking Services, formed last autumn, which is sponsor to the issue.

Richmond says the current depressed state of the oil and gas industry in the southern states provides an opportunity to acquire valuable reserves at attractive prices. For most of the properties, a gas price of $1.60 per million BTU and an oil price of $18.50 per barrel was used to calculate reserve value.

● COMMENT

The prospect for US natural gas prices is bullish at the moment, especially with a conservation-minded Texan in the White House, steering his country toward the low polluting fuel. Richmond will give investors a shot at this market, making it a rarity in London. If the company's hunch on gas prices proves correct, they could profit handsomely. But as any independent US oil or gas developer that managed to survive the 1980s can testify, price volatility can wreck well laid plans. It is unlikely Richmond would have ever come to the London market if shell-shocked US energy investors were not so wary. Adding to the risk is Richmond's status as a newcomer, without a development track record. But for those willing to accept such potential dangers Richmond is fairly priced at 105p given a net asset value of 80p per share, based on proven reserves and 150p using probable reserves.

Interlink shares dive 85p after warning of German loss

By John Ridding

SHARES IN Interlink Express, the USM-quoted parcel delivery and distribution group, plunged 85p to 188p yesterday following a warning of substantial losses in the company's new West German operation.

Mr Richard Gabriel, chairman, said that trading losses in its German subsidiary, which started operating on May 2, will exceed franchise income by about £500,000. As a result, analysts expect that pre-tax profits for the financial year which ends tomorrow will not exceed the £5.8m achieved last time.

In 1989-90, the picture is even worse. With a fixed cost base and the costs of reorganising the German operation, analysts expect losses there of about £2.5m and pre-tax profits for the group as a whole of about £4.25m.

The effect on earnings per share will be amplified because the company will not be able to write off its losses in Germany against UK profits.

According to Mr Gabriel, the company had anticipated profits of about £500,000 from West Germany this year. However, "a large number of small problems" meant instead that "significant trading losses are being incurred."

Mr Gabriel said that much of the problem lay with the German management team, which although trained by Interlink in the UK "did not understand our strategy."

Franchises were sold to existing large delivery operators which meant that Interlink represented only a small part of their business.

As a result, there was inadequate commitment to Interlink's business. In the UK, by contrast, emphasis has been placed on franchising through small operators.

Mr Peter Sanden, the group's managing director in West Germany, was removed two weeks ago and is being replaced by a team from the UK. According to Mr Gabriel, "We will effectively be starting from scratch again."

Interlink believes it will "be able to negotiate quite easily the removal of the unsatisfactory franchise holders" and does not envisage having to pay compensation.

The West German operation was Interlink's first venture on the continent. "We can see that there is a market in continental Europe and remain committed to expand there in the longer term," Mr Gabriel said. "However, we have to sort out Germany first."

Digging for profits: Rudolph Agnew in wise-cracking form at ARC's Whatley quarry in Somerset.

Fresh blast from Gold Fields

By John Thornhill

THE GROUND fell away for Consolidated Gold Fields yesterday, as it does most days at its Whatley quarry, near Frome, Somerset.

Mr Rudolph Agnew, chairman of the beleaguered mining group, accompanied a bevy of journalists to the quarry – run by its ARC subsidiary – to see 30,000 tons of countryside being blown up and reduced to little pieces of stone.

This seemed rather a strange exercise for a man who has only just repulsed the unwanted attentions of Minorco and is now in the throes of negotiating with Lord Hanson for the future of his company.

But the intention behind the visit was to fire a new shot in the continuing propaganda war by emphasising just how valuable ARC is to Gold Fields, or as Mr Keith Orrell-Jones, ARC chief executive expressed it, how invaluable it is.

ARC, formerly Amey Roadstone, has extensive quarry operations both in the UK and the US and is one of the jewels of the Gold Fields' empire, last year contributing £106m, or about 40 per cent of total group profits.

This year Gold Fields has forecast a contribution from ARC of about £158m and believes that it has enormous potential in winning business in the construction market.

The signal Gold Fields was yesterday giving out about the bid was that it would first try to tease out everything it could from Lord Hanson and would then be in a position to consider all options.

However, Mr Agnew said: "Unlike the previous bid, I think this is a straight-up financial fight."

Asked whether he might consider taking Gold Fields private, Mr Agnew said it was a possibility but one which he thought would be difficult because of the high capital requirements needed to invest in the long term future of a mining company.

But despite the strains, the wise-cracking Mr Agnew was in relaxed form yesterday.

As the blast echoed lazily through the quarry, Mr Agnew said: "There's £45,000 of profit, although I am not very good at small figures at the moment, I'm only used to dealing with big ones."

The jocular mood of the Gold Fields' camp extended to Mr Gerry Grimstone, a director of Schroders who has been leading the defence. "We are in the rather strange position of being prepared for a takeover battle, and we are hoping that practice makes perfect," he said.

As Gold Fields showed yesterday, it has proven ability in extracting stone; now the struggle is on to see how much cash it can extract from Lord Hanson.

Ratners chief reduces stake to finance tax on optioned shares

By David Waller

Mr Gerald Ratner, chairman and chief executive of the Ratners jewellery chain, has cut his stake in the company. He has sold 250,000 shares, leaving the total before options at 563,000. Mr Masarrat Hussein, a fellow director, has also cut his stake by 160,000 shares.

Mr Ratner explained that he was not in fact a net seller of the stock; the sale was made to finance the tax that would arise when he exercised his right to buy more shares under an options agreement.

The timing of the disposals was dictated by the fact that the company was about to enter the "close" season before reporting its figures.

EDP drops to £373,000

Electronic Data Processing, the computer distributor, has suffered a fall in pre-tax profits from £615,000 to £373,000 in the six months to March 31.

Turnover grew to £7.6m (£7.39m), and tax was reduced to £79,000 (£146,000) leaving earnings down at 3.41p (5.46p) per 5p share. However, the interim dividend is raised to 0.7p (0.65p).

Mr Michael Heller, chairman, said that little significance should be attached to the reduction in the profit figure.

As the requirements of customers became more sophisticated, there was an inevitable increase in the time lag between the time of inquiry and delivery of the machines, he maintained.

Wagon profits jump 63% but high interest rates prompt note of caution

By Richard Tomkins, Midlands Correspondent

HIGH INTEREST rates have prompted Mr John Hudson, chief executive of Wagon Industrial, to inject a note of caution into the outlook for this Shropshire-based manufacturing group.

Unveiling a 66 per cent increase in pre-tax profits from £9.18m to £15.25m for the year to March 31 1989, Mr Hudson said yesterday that order books across the group were above the levels of 12 months ago.

Some operations, however, were quieter. The slowdown in consumer demand had hit sales of Banro's microwave cooker components, and the UK office equipment business was suffering from a pause in refurbishment activity.

Mr Hudson looked forward to another strong year, but hedged his optimism with the proviso that a deterioration in the economic climate was not triggered by a further increase in interest rates.

The figures for the year just ended include a nine-month contribution from Banro, the quoted engineering group which Wagon bought for £39.2m in July 1988.

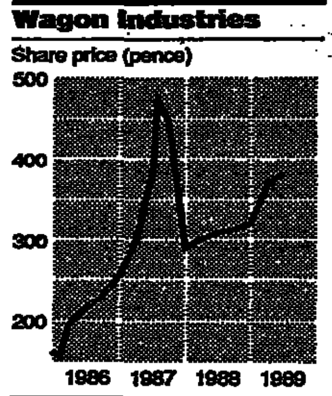
Turnover rose from £124.6m to £196.8m. The materials handling and storage division made trading profits of £8.24m (£6.6m); office equipment made £3.85m (£2.61m); engineering made £2.23m (£1.86m); and the new automotive division made £4.56m.

Two of the strongest performers during the year were the office equipment division, which saw a strong contribution from Vinco-MT in France, and the engineering division, where Oleo Pneumatics continued to benefit from strong international demand for its buffers.

Administrative and interest charges rose from £1.88m to £3.64m. Basic earnings per share rose from 28.34p to 33.7p, but full dilution for the convertible stock issued last year reduces the latest figure to 31.82p.

A final dividend of 8.75p (7.5p) is proposed, making a total 2p higher at 14p.

Wagon Industries



● COMMENT

The message coming from Wagon is the same as the one coming from other Midland manufacturers. A base rate of 14 per cent is bad, they say, but we can live with it. Take it any higher, though, and the pips will really begin to squeak. Wagon, however, is better spread than some, and it would be wrong to overdo the gloom merely on account of Mr Hudson's frankness. Vinco-MT's and Banro's operations in France, together with the recent acquisition of La Ferretera Vizcaina in Spain, give the group a strong presence outside the UK economy. Oleo, also orientated towards the international marketplace, is still seeing strong demand. And the biggest division, materials handling and storage, may have seen a fall-off in big pallet orders from UK retailers, but is still looking at an order book 20 per cent up on the year. With analysts looking for £20.5m and the shares 1p up at 383p, the prospective p/e of 10 (on equity fully diluted) makes ample allowance for caution.

UK COMPANY NEWS

Rise in prices helps Shanks & McEwan advance to £13.5m

By Vanessa Houlder

SHANKS & McEWAN Group, waste disposal specialist, yesterday announced a 37 per cent rise in pre-tax profits from £9.85m to £13.52m for the year to March 25. Turnover increased by 46 per cent from £59.82m to £87.04m.

Strong demand resulted in a 15 per cent rise in prices in the waste disposal division, while operating costs increased in line with inflation. Mr Peter Runciman, chairman, said that the introduction of tougher legislation did not require any action from Shanks & McEwan, although it gave indirect benefits through raising costs for many of its competitors.

The company estimated that the market share of the domestic, industrial and commercial waste markets – which are growing at about 7 per cent a year – had risen from 5 per cent to 6.5 per cent.

Capital expenditure totalled £20.5m, 80 per cent of which was spent on acquisitions and organic growth, with the remainder on existing vehicles and plant, and on gas control. At the year end the company had a cash balance of £6.6m.

Further acquisitions are planned to expand its landfill capability and to built up its collection network to feed waste to the sites.

Shanks & McEwan has a landfill bank of 250m cu m, including options and pre-emption rights. During the year it increased its available space from 80m to 83m cu m.

The construction division, where profits increased from £1.47m to £1.68m, saw a drop in margins as a result of a temporary downturn in its quarrying activities. Mr Runciman said that the division had a healthy, high quality order book and its performance would match the growth of the rest of the company.

Fully diluted earnings per share rose from 36.7p to 44.2p. The dividend for the year increased from 15.5p to 19p.

COMMENT

With the spotlight on the environment, 1989 has been a boom time for waste disposal companies and Shanks & McEwan – which has seen its shares rise by 63 per cent – is no exception. Indeed, Shanks is one of the most likely beneficiaries of the green phenomenon, being the largest and reputedly the highest quality of all the UK landfill specialists. Its deal with Hanson earlier this decade gave it a wealth of landfill sites; and its avoidance of toxic and other contentious wastes makes it relatively unlikely to suffer any disastrous setbacks. For the foreseeable future the company seems set for annual earnings growth of 20 per cent, so analysts feel confident it can achieve pre-tax profits of £17.5m this year, which puts the shares, up from £16.8 to £16.88, on a lofty p/e of 30. That looks demanding from an earnings point of view but is probably justifiable in view of the strong asset base and the thin market for the shares.

Mt Charlotte purchase

MOUNT CHARLOTTE Investments, the hotel group, is adding to its London interests with the purchase of the Charles Dickens Hotel in Lancaster Gate for £24.25m.

Cash of £12.5m has been paid with the balance in shares to be issued in December.

The 3-star Charles Dickens is opposite the Park Court Hotel, another Mount Charlotte property, and will be run as an adjunct to it. It has 193 bedrooms and normally enjoys occupancy levels of more than 90 per cent. It is likely to make £2m next year and is expected to cover its interest charge in the current year.

A bitter vitamin pill to swallow

Robert Rice on the likely defeat of one Gold Fields defence gambit

SHAREHOLDERS of Consolidated Gold Fields will vote tomorrow on the so-called "vitamin pill" defence it introduced during the closing stages of the hostile bid for it by Minorco.

In different circumstances, the vote would provide an opportunity to assess how the scheme was recieved by investors and what part it played in their final thinking on Minorco's £3.5bn bid.

But any accurate assessment of these factors and of the likelihood of the vitamin pill becoming an established part of the UK mergers and acquisitions scene is clouded by Hanson's £3.1bn bid for Gold Fields and Minorco's intention of voting its 29.6 per cent interest – although already irrevocably committed to Hanson – against its adoption.

Although it is possible that the vitamin pill could have an enduring effect if the Hanson bid was ultimately declared hostile, analysts were predicting yesterday that the Minorco vote effectively ensured that it would be defeated.

The architect of the vitamin pill is Mr John Grieves, head of the corporate finance group at Freshfields, Gold Fields' long-standing London solicitors. It is based on a defence strategy known as "protect preferred" dreamed up at the end of last year by Mr Martin Lipton of Wachtell Lipton Rosen & Katz, the New York law firm.

Under the Lipton scheme, the target company would adopt a resolution that if its existing shares did not reach a pre-determined higher price within a fixed period of years, it would buy them back at a price which reflected any shortfall between the final bid terms and the market price at the end of the period.

The aim of the scheme was to persuade investors that they would not lose if shares dropped once a hostile bid lapsed.

Mr Lipton sent a copy of the scheme to Mr Grieves in London asking for his comments on whether it would have any application in the UK. Mr Grieves replied that UK company law would not permit such a buy-back resolution, but that if the scheme was tied in to the payment of a pre-determined dividend on special preferred stock it could be used in the UK as well as the US.

On his way back from New York in mid-February, it occurred to Mr Grieves that the scheme might have a possible application in the Gold Fields battle. Until then the defence strategy had been the "building blocks" approach designed to show the value of the company as a whole.

Gold Fields management was confident in its assets base and its ability to manage and there was a lot of underlying institutional support. But the institutions appeared to be saying that they needed a reason to stay with Gold Fields; something to compensate them if the Minorco bid lapsed.

The scheme also had to be capable of introduction by a method requiring less than a special resolution so that it could not be defeated by Minorco's 29.6 per cent.

Gold Fields and its advisers had already talked about the possibility of a straightforward performance promise but concluded that some sanction was necessary in order to give it credibility. So on April 4 it unveiled the plan as part of its final defence document.

If an earnings per share target of 400p for the period 1990-1992 was not met, a special preference dividend of £6, inclusive of advanced corporation tax credit, would be payable to existing shareholders in 1992. After payment of the dividend, the preference shares would become worthless. Shareholders would not be asked to vote on the scheme until after the Minorco bid had lapsed.

In fixing the earnings target, Gold Fields had to come up with a figure which showed good growth; one that would stretch the management but which was also realistically achievable. The 400p figure represented an average annual compound growth requirement of more than 20 per cent.

Critics of the scheme maintained that if the company looked as though it was not going to meet the earnings target and that it would have to dispose of its assets to pay the dividend, the value of the ordinary shares would suffer accordingly. Pressure would mount on shareholders to vote the scheme out in order to preserve the share price.

It is clear that just as the scheme can be voted in by ordinary resolution so it can be voted out at any stage up to 1992. But its supporters claim that any fall in the ordinary share price which resulted from a restructuring of the company to meet the dividend would in practice be compensated by the value that the special preferred shares would then have.

Mr Grieves is slow to claim any lasting benefits for the scheme and reluctant in advance of tomorrow's vote to say how great a part it had to play in the outcome of the Minorco bid. But whatever the outcome of the vote, and of Hanson's bid, it is unlikely that the last has been seen of the vitamin pill.

Leisuretime Intl returns to the black

By Clare Pearson

THOSE WHO have become increasingly confused by the myriad of companies with the word "leisure" in their name can take heart from a decision by Leisuretime International to change its title to Buckingham International.

The change was announced yesterday as the Jivraj family-controlled hotel, nursing home and tour operator unveiled pre-tax profits of £1.15m, against a loss of £1.36m, in the half-year to end-April, as well as the acquisition of its second hotel in Texas.

Mr Nick Jivraj, managing director, said the name change was not only more individual than Leisuretime but would also lessen the association with the Aitken family, from whom the Jivrajs took control early last year. Buckingham was the name of the first hotel, in the Cromwell Road, that the Jivrajs acquired in 1973.

Leisuretime is paying $2.9m (£1.87m) to buy the Nassau Bay Motor Inn, a 220-room hotel at Clear Lake near Houston. After refurbishment, the hotel is expected to have cost about £20,000 per room.

Plans have recently been announced for the development of a Walt Disney-designed visitors centre at the Johnson Space Center at Clear Lake. The Premier group of hotels at Walt Disney World in Florida were injected into Leisuretime after the Jivrajs took over.

The Preston Travel and Repose Hotels operation lost £578,000. It is expected to make operating profits of about £700,000 for the year despite the depressed tour industry. Country Care Homes made an operating profit of £310,000.

Group turnover was £7.365m (£2.51m), and there was a £100,000 (nil) surplus on the disposal of properties. Earnings per share were 1.7p (losses of 9.7p).

A dividend, the first since 1986, is expected to be paid at the year-end.

Goodman diversifies into video rental market

By Graham Deller

GOODMAN GROUP, the troubled fashion clothing manufacturer and retailer, is diversifying from that problematical sector through the acquisition of Ashbrights, a video rental chain, and Pebbletape, a company whose main asset is a shareholding in Cityvision, the video tape distributor.

Directors said that the purchases, which are conditional on shareholders' consent, would "reduce Goodman's dependence on fashion retailing and bring in a business which can be rapidly expanded from a low capital base".

The move would "offer protection from the downturn currently affecting the clothing retail sector" they added.

Ashbrights, which trades in the London area under the Video Store banner, is being acquired for £1m, satisfied by the issue of 3.33m shares. Further profit-related payments, of up to 6.15m shares, may became payable over the next three years.

In the 13 months to April 24, Ashbrights made pre-tax profits of £64,732. Net assets at that date amounted to £359,580.

Total consideration for the two companies would not exceed 12.75m Goodman shares, the directors added.

The need for the move was illustrated by Goodman's results for the year to end-January which showed a pre-tax deficit of £594,000 against profits of £143,000 in the previous nine month period.

The loss per share amounted to 2.1p (earnings of 0.6p) and there is no dividend (0.25p).

FIH in £1.2m French buy

FERGUSON INDUSTRIAL Holdings, the packaging, printing and plastics group, is paying an initial FFr 12.8m (£1.2m) for Beuque, a plastic hanger manufacturer based at Oyonnax near the Swiss border.

The French group will be integrated into the FIH group of companies to expand continental European operations.

A further FFr 3.2m is payable under the terms of the purchase agreement.

Beuque returned pre-tax profits of FFr 1.7m on sales of FFr 22.6m during the year to March 31 and the net asset value of the company is about FFr 6.2m.

Stanco exceeds £2m and doubles dividend to 1p

STANCO EXHIBITION Group, the USM-quoted company involved in the supply, building and hiring of exhibition and display stands, reported pre-tax profits of £2.01m for the 12 months to the end of April.

The outcome compared with the £817,000 achieved during the previous year and the £1.61m restated under merger accounting principles for the 16 months to April 30 1988.

The figures did not include any contribution from GJ Blevins, the shopfitter acquired in March and subsequently resold to its vendors after certain discrepancies in valuation of work-in-progress and debtors came to light.

Earnings per 5p share were 2.6p, compared with 1.8p and 2.4p for the previous 12 and 16 month periods. A dividend of 1p was proposed (0.4p).

Cadbury buys Spanish confectioner

By Lisa Wood

CADBURY SCHWEPPES, the UK soft drinks and confectionery group, is to acquire Chocolates Hueso, a family-controlled Spanish confectionery manufacturer for an undisclosed sum.

Hueso, based near Zaragoza, has an annual turnover of around £15m and profits after tax in the last financial year were £1.44m. Net tangible assets being acquired amount to some £6.5m.

The acquisition, which is subject to Spanish regulatory approvals, does not include the Zabor business which is owned by the same company.

The Spanish confectioner manufactures both chocolate and sugar confectionery including Tokke and Huesitos, the two largest brands in the chocolate-covered snacks sector of the market, called count-lines.

Sales of count-lines, while small compared to the more traditional moulded chocolate bar market, are growing rapidly in Spain – by over 8.5 per cent a year at a time when the moulded chocolate sector is static.

Hueso also owns a sugar confectionery brand, called Respiral which is a strong performer in Spain which has one of the highest per capita consumptions of sugar confectionery in the world.

The acquisition will give Cadbury, which exports its own confectionery to Spain, a 14 per cent stake in the Spanish chocolate confectionery market where other strong foreign players include Nestle, Suchard and Mars.

Over the last couple of years Cadbury has been actively pursuing confectionery acquisitions in the fragmented Continental confectionery market which accounts for 30 per cent of the world volume of confectionery and 35 per cent of its value.

Last year Cadbury acquired Chocolat Poulain, one of the leading French manufacturers of branded chocolate products, for £95m.

● July 4 is the deadline for votes to be taken on an ordinary resolution, put forward by the Cadbury board, to increase the group's borrowing limits to around £1.7bn. Cadbury is seeking to make provisions for the increase by a simple majority after recently narrowly failing to increase borrowing limits to around the same level by changing its Articles of Association.

This was because General Cinema, the US group which holds a 17 per cent stake in Cadbury, opposed the special resolution required to make this change. Some 71 per cent of voters however were in support of the Cadbury board's proposal.

Cadbury said it did not know which way General Cinema would be voting on the ordinary resolution but its legal advisers had been in touch with those of General Cinema, Contact between the two groups had been non existant before the recent debate over increasing borrowing limits.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- First Tokyo Index, TSB.

Finals- Avesco, BTP, Bristol Stadium, Budgens, Courts (Furnishers), Crosby (James), Danae Inv Trust, Dowty, Greycoat, Harmony Leisure, London Securities, RPH, Savills, Stoddard Sekers, Sutcliffe Speakman, United Inds, Vinten, Vistec, Walker & Staff.

FUTURE DATES

Interims-

Beckenham	July 3
Newman Tonks	July 5
Sperati (CA)	July 12

Finals-

Barbour Index	July 11
Embassy Property	July 3
First Technology	July 10
Hollas	July 4
Lister	July 4
Menzies (John)	July 10
Pathfinders	July 3
Pepe	July 4

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Alexander (Walt) ......fin	3.2	Aug 31	3.2	5	5
Campbell/Arms § ....fin	3.3†	Aug 25	3	4.95	4.5
Chemoxy Intl ....fin	6.2	Aug 11	3.9	8.8	5.75
Econ Forestry § ......int	1.25	Aug 3	1.25	-	3.25
Electronic Data ....int	0.7	Aug 4	0.65	-	2.375
GEC ....fin	5.65	-	4.7	7.8	6.5
Gold Greenlees ....fin	4.5†	-	3.9	7.5	5.4
Goodman Group .....fin	nil	-	0.25	-	0.25‡
Gresham House ......int	3.6	-	3.5	6.6	6
Shanks & McEwan ..fin	12	-	8.5	19	15.5
Stanco Exhibit § ....fin	1†	Sept 4	0.4	-	0.4‡‡
Wagon Ind Hldgs .....fin	8.75†	-	7.5	14	12
Waterglade Int ....fin	2.75	Aug 11	2.5	4.5	4
Wilshaw ....fin	0.2	Sept 15	nil	0.2	nil

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ♦Third market. ‡For nine months. ‡‡For 16 months.

UK ECONOMIC INDICATORS

ECONOMIC ACTIVITY- Indices of industrial production, manufacturing output (1985=100); engineering orders (£ billion); retail sales volume (1985=100); retail sales value (1985=100); registered unemployment (excluding school leavers) and unfilled vacancies (000s). All seasonally adjusted.

	Indl. prod.	Mfg. output	Eng. order	Retail vol.	Retail value*	Unem-ployed	Vacs.
1988							
1st qtr.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2nd qtr.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3rd qtr.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4th qtr.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
July	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
August	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
September	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
October	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
November	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
December	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1989							
1st qtr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
January	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
February	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
April	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OUTPUT- By market sector: consumer goods, investment goods, intermediate goods (materials and fuels); engineering output, metal manufacture, textiles, leather and clothing (1985=100); housing starts (000s, monthly average).

	Consmer. goods	Invest. goods	Intmd. goods	Eng. output	Metal mnfg.	Textile etc.	Housg. starts*
1988							
1st qtr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2nd qtr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3rd qtr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4th qtr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
August	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sept.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
October	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
November	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
December	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1989							
1st qtr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
January	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
February	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
April	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EXTERNAL TRADE- Indices of export and import volume (1985=100); visible balance (£m); current balance (£m); oil balance (£m); terms of trade (1985=100); official reserves.

	Export volume	Import volume	Visible balance	Current balance	Oil balance	Terms trade	Reserves US$bn
1988							
1st qtr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2nd qtr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3rd qtr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4th qtr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
July	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
August	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
September	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
October	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
November	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
December	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1989							
1st qtr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
January	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
February	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
April	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FINANCIAL- Money supply M0, M1 and M3 (annual percentage change); bank sterling lending to private sector; building societies net inflow; consumer credit; all seasonally adjusted. Clearing Bank base rate (end period).

	M0 %	M1 %	M3 %	Bank lending £m	BS inflow £m	Cnsmer. credit £m	Base rate %
1988							
1st qtr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2nd qtr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3rd qtr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4th qtr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
July	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
August	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
September	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
October	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
November	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
December	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1989							
1st qtr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
January	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
February	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
April	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INFLATION- Indices of earnings (1985=100); basic materials and fuels, wholesale prices of manufactured products (1985=100); retail prices and food prices (Jan 1987=100); Reuters commodity index (Sept 1931=100); trade weighted value of sterling (1975=100)

	Earn-ings	Basic matls.*	Whsale. mnfg.*	RPI*	Foods*	Reuters* cmdty.	Sterling
1988							
1st qtr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2nd qtr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3rd qtr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4th qtr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
July	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
August	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
September	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
October	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
November	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
December	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1989							
1st qtr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
January	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
February	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
April	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

*Not seasonally adjusted
†Net changes in amounts outstanding, excluding bank loans.

UK COMPANY NEWS

Flotation problems in less buoyant times

Clare Pearson on the reasons behind the unpopularity of coming to market this year

THE FIRST half of 1989 may have seen a sharp upsurge in the prices of companies already quoted on the stock market but it is not going to go down as a vintage period for new issues.

On the contrary, the first six months have seen both the number of companies joining the market and the funds they have raised, fall significantly from the more or less stable levels of the previous two years.

Statistics produced by Peat Marwick McLintock, the accountants, show that just 59 companies have obtained a full listing or joined the Unlisted Securities Market so far this year. This compares with 105 in the first six months of 1988 – which opened with the secondary market still reeling after the stock market crash of the previous October.

A comparison of funds raised reinforces the picture of a depressed new issues market. By this week, it had been tapped for an aggregate £334m: at the same point last year the figure for the first six months of 1988 was £765m.

According to Peat Marwick, it is all a question of the lag effect, since flotations take some time to mature. Difficult secondary market conditions and rising interest rates towards the end of 1988 led sponsors – far more nervous about which companies to take on since the 1987 crash – to advise entrants to put their flotations on ice.

Hence the very low total in the first quarter, when just 18 companies found their way on to the market. The same reasoning provides an explanation of why the second quarter saw a recovery in the number of flotations to 41: emboldened by the upsurge in the market at the start of the year, companies speeded their plans forward.

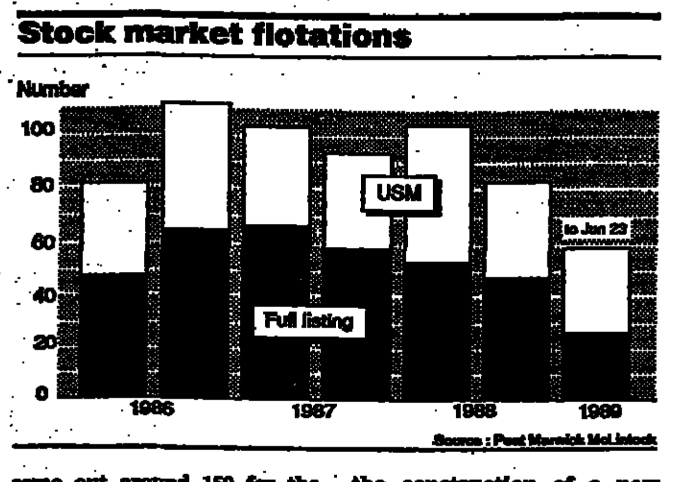
However, the figures must also reflect the lessened attractions of flotations in the post-crash context (while the 1988 result was buoyed up by the emergence of issues postponed in autumn 1987).

Concerns about the liquidity of smaller companies' shares, and how far sponsors will look after new entrants after they have joined the market, are reportedly weighing more and more heavily on prospective entrants' minds.

Especially now that so few companies can join on glamorous p/e ratios, the alternative of selling out to a friendly buyer is being looked at more and more seriously, and in particular this is tending to depress the number of management buy-outs choosing to float. The decision by Premier Brands, a buy-out from Cadbury Schweppes, to sell itself to Hillsdown Holdings rather than join the stock market provides a salient recent example.

Nevertheless, Mr Ray Mackie of Peat Marwick still expects the number of flotations to come out around 150 for the year. "This would be a very healthy result considering the doubts about the British economy at the present time," he says.

Stock market flotations



Source: Peat Marwick McLintock

The new issues market, always to a large extent dependent on the timing of a few very big deals, will inevitably see higher levels of activity in the second half.

The period will obviously be dominated by the £5bn-£7bn flotation of the water authorities. This, the most controversial as well as the most complicated of the Government's privatisation exercises, is scheduled to take place in mid-November.

Before that, however, the UK tranche of Euro Disneyland, the flotation associated with the construction of a new theme park outside Paris, is expected to come as an offer for sale. The UK portion is likely to amount to something over £100m.

Such issues will give the general public the first real opportunity it has had this year to participate in the new issues market. The two biggest flotations during the first half, that have also had a popular flavour, have both taken the form of an introduction (where no shares are issued externally) with accompanying rights issues.

These were for NFC, the employee-owned transport and distribution group, in February, and Abbey National, the former building society. This latter will actually form part of the second half-total, since dealings start early next month.

Aside from those, there has been just one offer for sale – for Community Hospitals, the independent healthcare group, in May – and even that was only for £20m. A similarly sized offer is about to be launched for the explorer Richmond Oil & Gas.

Reflecting the small amount of funds that has been raised on the market, every other company seeking new money has chosen a placing (where new shares tend to be alloted solely to institutions). This is cheaper and easier than an offer for sale, and open to all companies looking to raise £15m or less.

It is in line with this trend that flotations on the USM – the junior market, designed for the smaller company – have outstripped those on the main market. The USM total is 33, compared with 26 for the main market (against 52 and 53 in the comparable 1988 period).

The increasing rarity of the offer for sale obviously sits oddly with the Conservative Government's enthusiasm for wider share ownership.

How it could better be promoted is one of the items on the agenda of the Initial Issues Committee – set up by the Stock Exchange in March – which also has a brief to review the competitive position of the UK market.

Walter Alexander falls 63%

By Edward Sussman

WARM WEATHER, high interest rates and slow US sales resulted in a 63 per cent decline in pre-tax profits for Walter Alexander, the Scottish industrial group, for the year to March 31.

Turnover rose to £96.7m (£95.4m) and pre-tax profits fell from £6.51m to £2.39m, in line with the group's profit warning issued in April. Earnings per share were 6.2p (15.3p) and an unchanged final dividend of 3.2p leaves the total at 5p.

The bulk of the decline was due to the US operations of the home textile division, which lost £1.13m on sales of about £21m. Under the direction of Mr Alan Cole, chief executive since November 1988, the US division has since closed two plants and installed new management.

About £260,000 was paid to terminate the contract of Mr Jimmy Hamilton, the managing director replaced by Mr Cole.

In the UK, the group's Slumberdown, maker of duvets, saw its sales collapse in the final quarter. The company blamed the warm winter and high interest rates. The weather also hurt the group's liquid fuel distribution division, which saw profits fall from £236,000 to £59,000.

The coachbuilding division suffered a 30 per cent drop in profits to £1.35m (£1.94m) on slightly increased turnover of £28.4m (£26.2m). Improved forward order books and a plant reorganisation lead the company to expect better results in the current year. Both the filtration division and DIY distribution side raised profits, to £1.84m (£1.74m) and £624,000 (£544,000) respectively.

Gold Greenlees tops forecast with £5.15m

By Andrew Hill

GOLD GREENLEES TROTT, the advertising and marketing services group, increased pre-tax profits by nearly 59 per cent to £5.15m in the year to April 30, just ahead of its own forecast at the time of last month's £11.9m rights issue. The figures compare with £3.24m made in 1987-88.

Turnover was up from £58.2m to £104m and earnings per share increased from 21.69p to 29.34p and the company recommended a final dividend of 4.5p, making 7.5p (5.4p) for the year.

The results included the first contributions from BDH Communications Group, a Manchester advertising agency bought in October, and Babbit & Reiman, an agency based in Atlanta. They made £600,000, reduced to £200,000 if the reduction in interest on cash used in the purchases is stripped out.

The Babbit acquisition last June was GGT's first in the US. Last month the group added to its US presence by purchasing Martin-Williams, based in Minneapolis, for an initial $11m in cash and shares.

The company's joint chairmen, Mr Michael Greenlees and Mr Michael Gold, said in their statement yesterday that the group entirely rejected the theory that biggest was best. They said GGT was committed to a cautious approach, creating a more resilient corporate structure.

Mr Greenlees said the company wanted to complete its North American network in the next 18 months and seek representation in four main European centres – Frankfurt, Paris, Milan and Barcelona. There is about £5m of cash left in the balance sheet after the rights issue and the latest US acquisition.

During 1988-89 the group won new business from Pilkington, Post Office Counters and Conoco.

● COMMENT

Yesterday's statement of GGT's acquisition strategy is scathing about what it calls "the 'pacman' approach to corporate development pursued by others". GGT is hungry for acquisitions, but it is very much a gourmet rather than a gourmand at the dinner table, carefully selecting the choicest purchases before tucking in. Its attitude to the trade, by contrast, is aggressive, characterised by no-holds-barred advertising campaigns. It was GGT which created the poster showing a fly-covered MP, part of a campaign to persuade politicians to provide more aid to developing countries. The campaigns may shock the spectators but they don't seem to dissuade the clients – GGT lost no major customers last year. If last year's earnings figures are adjusted for the rights issue, 1989-90 earnings should show growth of over 20 per cent, on the basis of pre-tax profits up £8.2m. The shares, unchanged at 300p yesterday, are on an attractive prospective p/e of about 9.

Chemoxy Intl up sharply to top £1m mark

An 88 per cent expansion in taxable profits for the 12 months to end-March was yesterday reported by Chemoxy International, the Middlesbrough-based speciality chemicals processor.

The outcome, up from £564,000 to £1.06m, was recorded during a buoyant period for the chemicals industry, but according to Mr Andrew Reynolds, chairman, this "does not diminish the achievement of a rate of organic growth, to my knowledge, unequalled in this industry".

Pressure on margins was greater, he said, but business remained at a "high level".

Turnover rose 48 per cent to £11.49m. Earnings were 27.5p (18.3p) per share and a proposed final of 6.2p lifts the annual total 53 per cent to 8.8p (5.75p).

Waterglade International improves 48% to £6.8m

PROFITS before tax of Waterglade International Holdings, the property developer and investor, rose 48 per cent from £4.6m to £6.8m in the year to end-March.

Turnover in the period increased from £17.45m to £22.7m and included joint venture profits of £979,000 (£44,000). After tax of £2.51m (£1.67m) earnings per 5p share increased from 13.38p to 16.81p.

The directors said the net tangible assets of the group had risen to £27.1m, equivalent to 64p per share, and are recommending payment of a final dividend of 2.75p making a total for the year of 4.5p (4p).

During the year the company substantially increased its capital base through a £13m rights issue in convertible preference shares and its property development programme has a completed capital value in excess of £250m.

This, together with its expanding investment portfolio, would give the group a sound base from which to achieve further growth, they said.

The board also announced that with effect from July 31, Mr Michael Miskin, joint chief executive, will resign his executive duties. He will remain as a non-executive director.

Downturn at Economic Forestry

Reduced pre-tax profits of £1.24m against £1.37m were announced by Economic Forestry Group, USM-quoted manager of forests and woodlands and garden centre operator, for the half year to April 2 1989. Turnover was down from £20.19m to £18.51m.

The downturn was despite a £594,000 contribution from the sale of property and investment and a £107,000 revaluation surplus in respect of assets realised. Earnings, however, advanced from 6.3p to 7.4p after tax of £194,000 (£480,000). The interim dividend is unchanged at 1.25p.

The group also announced the acquisition of Alan Stacey, designer and distributor of home and garden products, for an initial £100,000 in cash with further profit-related payments in cash or shares up to £650,000. In 1988 it had a turnover of £3.4m.

Wilshaw advances 59%

WILSHAW, the High Wycombe-based industrial holding company, achieved a 59 per cent improvement in pre-tax profits in the year ended March 31 1989 from £1.1m to £1.75m, on turnover ahead 41 per cent to 16.37m against £11.59m.

The group has interests in engineering components, metal powders, aluminium castings, and building products.

During the year it was "transformed" according to Mr Peter Reynolds, chief executive, by the acquisition of Bepco, supplier of spare parts for tractors and machinery, and Oastal, an aluminium moulds and castings maker. There were now three core divisions which formed the basis for future growth, he said.

The directors are proposing to pay a single dividend of 0.2p per share, the first since 1977. Earnings per 5p share advanced 46 per cent to 1.65p (1.13p) after tax of £598,000 (£439,000).

Mr Reynolds added that since the year end trading had continued satisfactorily and the directors intended to make acquisitions to strengthen the group's activities, as well as to promote growth in those businesses already acquired.

Management buy-out for Tinsley Robor offshoot

By Graham Deller

TINSLEY ROBOR, the specialised printing and packaging group, yesterday confirmed the disposal of its loss-making Robor carton printing subsidiary.

The buyer is Deckplant, a newly-formed management buy-out vehicle led by Mr Ian Robinson, Robor managing director.

Tinsley will receive approximately £1.9m from the deal, which is conditional on shareholders' approval.

Yesterday, Mr John Rose, chairman, said that the proceeds would initially be used to reduce group borrowings. He added that Tinsley had "certain investment plans for the promotional print division among other things", but declined to elucidate further.

The promotional printing side is the largest supplier of printed packaging material to the UK music industry, supplying compact disc and cassette booklets and inlay cards, record sleeves, posters and connected promotional items. "We have ideas of continued expansion in this area" Mr Rose said yesterday.

Robor, based in Lancing, Sussex, had been under threat of closure if the sale had not gone through. It incurred a pre-tax deficit of £411,000 on turnover of £5m in the year to end-March 1989. The operating loss amounted to £125,000.

Tinsley regards the market for printed cartons, particularly of the multi-coloured "freeze glaze" variety for the food retailing industry as "highly competitive" and that additional capital expenditure was required for Robor to trade profitably.

COMPANY NOTICES

TAYLOR WOODROW INTERNATIONAL FINANCE B.V.
US$20,000,000 8¾% CONVERTIBLE GUARANTEED BONDS 1990 GUARANTEED BY TAYLOR WOODROW plc

Pursuant to the terms of issue of the above-named Bonds, you are hereby notified as follows:-

At the Extraordinary General Meeting of Taylor Woodrow plc held on 16th June, 1989; it was resolved to make a capitalisation issue of ordinary shares credited as fully paid to ordinary shareholders on the register at the close of business on 16th June, 1989 at the rate of one share for each one share held. As a result of the capitalisation issue the conversion price of the Bonds has been adjusted with effect from 19th June, 1989 in accordance with Condition 6(C)(1)(4) of the Bonds from 120p to 60p per share.

LEGAL NOTICES

POWERWARE LIMITED

We, Nigel John Vought and John Martin Iredale of Cork Gully, 9 Greyfriars Road, Reading, Berkshire RG1 1JG were appointed joint administrative receivers of Powerware Limited (Registered No 2257646) by Barclays Bank Plc on 14 June 1989.

COMPANY NOTICES

ANGLO AMERICAN CORPORATION OF SOUTH AFRICA LIMITED
(Incorporated in the Republic of South Africa)
Registration No. 01 05309 06

NOTICE TO MEMBERS

ANNUAL GENERAL MEETING

Notice is hereby given that the seventy-second annual general meeting of members of Anglo American Corporation of South Africa Limited will be held at 44 Main Street, Johannesburg, on Thursday, August 31 1989, at 10h00, for the following business:

1. To receive and consider the annual financial statements for the year ended March 31 1989.
2. To elect directors in accordance with the provisions of the Corporation's articles of association.
3. To consider and, if deemed fit, to continue to authorise the directors to allot and issue, after providing for the allotment and issue of shares in terms of the share incentive scheme and the employee shareholder scheme, the remaining unissued shares in the capital of the Corporation, in their discretion in terms of and subject to the provisions of the Companies Act.

Holders of share warrants to bearer who wish to attend in person or by proxy or to vote at any general meeting of the Corporation must comply with the regulations of the Corporation under which share warrants to bearer are issued.

A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend, speak and vote in his stead. A proxy need not be a member of the Corporation. If required, forms of proxy are available from the Head and London offices of the Corporation.

By order of the Board

C L MALTBY
Secretary

June 28 1989

Registered and Head Office: 44 Main Street Johannesburg 2001

London Office: 40 Holborn Viaduct London EC1P 1AJ

Notes:
1. There are no service contracts granted by the Corporation, or any of its subsidiaries, to any director or alternate director of the Corporation, which need to be made available for inspection in terms of the requirements of The Stock Exchange in London.
2. The 1989 annual report is being posted to registered shareholders today and copies are available for holders of share warrants to bearer from the London offices.

COMMODITIES AND AGRICULTURE

Row looms over planned EC ban on dairy hormone

By Tim Dickson in Brussels

THE RUMBLING controversy over bovine somatotropin (BST) – the powerful hormone which manufacturers claim can stimulate the milk yield of a cow by up to 25 per cent – is set to erupt in Brussels next month when the European Commission formally adopts a plan to ban its use in Europe over the next 18 months to 2 years.

Mr Raymond MacSharry, the EC's Agricultural Commissioner, is understood to be circulating a draft proposal on this sensitive issue, which now seems certain to be agreed by his Commission colleagues in the next couple of weeks and submitted to EC farm ministers at their next meeting on July 24.

The Brussels authorities will be anxious to stress that the proposed ban is only temporary, and that it has been tabled largely because the results of the scientific tests conducted so far are not conclusive.

The move is nevertheless expected to provoke allegations of Luddism by parts of the science establishment and multinational drug companies, such as Monsanto and Eli Lilly, which have poured billions of dollars into developing and promoting BST. The suspicion of BST's supporters will be that the Commission has bowed to fierce consumer and environmentalist pressure, as well as the concern of market managers at the likely impact of such a yield booster on EC milk production.

Among the problems for the Commission has been the fact that the scientific evidence given to the Committee on Veterinary Medicines and Pharmaceuticals suggests no danger from BST to human or animal health. On the other hand, there appear to be widespread consumer fears about the use

Ray MacSharry: Circulating draft proposal

of what one group of scientists called an "unnatural agent", a mood reflected in last year's call by the European Parliament for a Commission study of the wider economic and social implications of BST, as well as of the direct effect on human and animal welfare.

It is that report which has been used as the basis for the Commission's internal deliberations and which will be formally passed on to the Council of Ministers at next month's meeting. Written by DG 6, the Agricultural Directorate General in Brussels, after consultations with a wide variety of parties including farmers, consumers, commercial interests and veterinarians, it apparently concludes that there are still questions such as the impact on milk quality and the presence of residues in meat where the scientific proof provided so far is "not sufficient."

"Mr MacSharry's position is that there are still surveys to be conducted," one well-placed insider commented last night.

The official report also looks at wider food quality, animal welfare and the effect of authorising the use of BST on the EC's economic and social structure – although it is not thought to give particular ammunition to those who claim that the small family farm will consequently be under attack.

As for consumer reactions, the study simply points out that two surveys are currently being conducted and that the detailed responses have not yet been collated.

The main argument inside the Commission – and indeed among member states – is likely to be the duration of the ban. Some Commissioners may feel that Mr MacSharry's apparent preference for a two year ban running to the end of July 1991 is too long and that 18 months or even less is more appropriate.

Several EC Farm Ministers have already staked out their positions on BST. At this month's Farm Council in Luxembourg, for example, Mr Ignaz Kiechle, the West German minister, seemed to affirm his clear opposition to its use, while Mr Henri Nallet, his French counterpart, warned that the concerns of the Green parties ought to be taken into account. He expressed worries about the implications on internal European farm trade if member states did not reach agreement within an EC framework on the BST issue.

Mr John MacGregor, the UK's Farm Minister, underlined his determination that "farmers should not be deprived of scientific progress."

BST has already been authorised for marketing in a number of countries, including the Soviet Union, Czechoslovakia, India and South Africa. Authorisation has not been granted in the US but a decision is expected by the end of the year.

Militancy fires Brazilian soyabean dispute

John Barham on the battle between farmers and government over market conditions

BRAZIL'S SOYABEAN growers are locked in a bitter dispute with the Government over almost every aspect of the industry. Militant farmers have blocked roads, besieged processing centres and burnt tons of soyabeans in public. Yesterday they were planning a major demonstration in Brasilia, the capital.

Mr Alysson Paulinelli, president of the National Confederation of Agriculture, said: "Farmers are being victimised by a *triple garotte*: no credit, price freezes and a ridiculously overvalued currency." Producers say prices must rise by over 20 per cent and the currency should be devalued by 25 to 30 per cent. Mr Paulinelli insists that farmers will not sell a single bean until the Government settles all their grievances.

The wealthy soya farmers have considerable clout. Soya was expected to bring in $4bn in export revenues this year, making it Brazil's third most important source of foreign exchange. Mr Paulinelli says producers are still holding on to 75 per cent of this year's record 22m-tonne harvest.

The soyabean protest began over a month ago and has grown in intensity with each abortive meeting with government officials. And soya growers are not alone: orange, coffee, cocoa, rice and even sisal producers are also restless. Even industrial exporters are clamouring for a more aggressive exchange rate policy. It seems that the soya farmers' protest is beginning to hurt.

The port of Paranagua, which handles half Brazil's soya exports, is at a virtual standstill. At this time of the year, exports should be at their peak. The port expects to handle about 1.1m tonnes of soya this month, when it should be handling closer to 1.8m tonnes. Lorry deliveries are down to 130 a day from an expected 1,100 a day.

Maria do Pocorro da Cruz, a port official, said: "Exporters are worried that if this goes on any longer there could soon be a lack of export cargoes." Reports that some Brazilian exporters are unable to honour sales contracts have begun to affect prices.

The Finance Minister has told farmers that he will not be stampeded into action and cannot make policy changes to suit a single interest group. But the exploding inflation rate has forced the Government's hand once already. Earlier this month it resumed daily devaluations of the Brazilian cruzado and re-introduced daily indexation to adjust prices for inflation, measures that economists and businessmen as well as farmers have been demanding since April.

But exporters say the currency is still 25 to 30 per cent overvalued, damaging the competitiveness of all exports. And since domestic soya prices are tied to the international market, the overvalued currency also depresses local prices. By the farmers' calculations, a 60 kg bag of soyabeans costs $14.65 to produce on average. However, the local market is only paying $11.77 a bag. Centralsul, a large Rio Grande do Sul co-operative, says financial charges alone amount to $5.15 a bag.

The CNA claims that the sales boycotts have already cost $300m, in lost sales and falling prices. The Confederation insists that producers are determined to hang on to the bitter end. The longer they hang on, the more costly their protest becomes.

Prices have been sliding all year as fears of the drought in the American Midwest recede. Prices could fall even faster with the approach of the US harvest in September. Nevertheless, Brazilian farmers are confident that the Government will adjust exchange rates well before then. If not, they hope the boycott will prevent a price collapse, even though Brazil's output is less than half the normal US harvest.

The protest has not driven up domestic prices significantly yet. Government price controls were only lifted last week. However, prices are bound to begin rising as supplies of soya cooking oil, a staple food, begin to run dry.

Farmers say prices need to increase by a quarter. An official at a farm co-operative said: "The value of our bank loans has been adjusted in line with inflation, which has increased 60 per cent since February 1. But our prices are adjusted by exchange rate, which has been devalued by only 36 per cent since January."

Until recently, Paraguayan traders were snapping up all the Brazilian soya they could lay their hands on. They paid farmers the going international price, converted at the black market exchange rate, which quoted the cruzado at one third of its official value. Now, however, Paraguay is awash with Brazilian soyabeans.

Since producers are not selling their produce, they have also stopped repaying their bank loans. That in turn has starved banks of funds to finance winter crops. Mr Paulinelli said: "The protest will not affect winter crops if the Government acts in time."

The protest's leaders are resigned to defeat over their third demand – the redemption of official credit. By law, they claim, the Government is obliged to provide all the financing they need. However, the Government is on the verge of insolvency: it can hardly pay civil servants' salaries, let alone provide adequate credit for wealthy farmers. Mr Paulinelli said: "Farmers are going to have to learn to become self-financing, they will have to learn to depend less on the Government."

Cultivating a future in the export of wood products

Barbara Durr looks at a burgeoning Chilean industry fueled by foreign investment

PROTECTED FROM Chile's brisk winter winds and sudden frosts, 6m eucalyptus seedlings are being carefully cultivated by Royal Dutch Shell's Chilean subsidiary. The seedlings, grown in high technology greenhouses outside the central south town of Los Angeles, will be planted by next month and form part of the wood stock to feed Shell's $285m short-fibre pulp plant.

Shell, in partnership with Scott Paper of the US and Citibank, will have invested by 1991 a total of $420m in the project. And this is only one of three massive pulp investments due to come on line in the early 1990s.

Over the next decade, Chile is poised to become one of the world's top forestry products exporters. From 1987 to 1992, some $1.9bn will have been invested in forestry, with pulp projects accounting for the lion's share. By 1993, Chile's state-owned National Forestry Corporation predicts that the country will export $1.2bn in wood products.

The country has come a long way since 1973, when forestry was largely for domestic self-supply and exports barely reached $38m. Last year these exports were $730m, or 11 per cent of the total of $7bn, "and this year will be as good as last," claims Mr Ivan Castro, the corporation's director.

Chile has reached the take-off point in forestry, thanks to some intelligent policy-making at CONAF. In 1974, the first full year of the military government, Chile changed its laws on forestry to provide substantial incentives for tree planting. Under Decree Law 701, which expires in 1994, the Government has granted a 75 per cent subsidy for costs of plantation, plus waivers on taxes through the first rotation of trees and additional subsidies for pruning.

The policy has brought results. Roughly two-thirds of the country's 1.3m hectares of plantations have come into existence since 1974. Plantations, mostly of radiata pine but with an increasing amount of eucalyptus, are projected to reach 2m hectares by the time the law expires.

Yet expanded plantation area only tells part of the story. Chile's climatic and soil conditions yield high growth rates, with rotation periods of eucalyptus, for example, as low as eight to ten years compared with 50 to 100 years in Scandinavia and Canada. Combined with low labour costs, this makes Chile one of the world's lowest cost timber producers.

The Chilean industry's potential has attracted investment in recent years. New Zealanders – Carter Hope Harvey and Fletcher Challenge – were some of the first to catch on. Carter Hope bought 15 per cent of Copec, Chile's largest conglomerate, which is making a $600m investment in pulp production. This will be the largest such project in the country.

Chile's top paper products company, Compania Manufacturera de Papeles y Cartones has also gone into partnership with Simpson Paper, of the US, for a pulp project costing $587m. Copec's and CMPC's plans for two giant plants, both using radiata pine, will produce 350,000 tonnes and 315,000 tonnes of kraft (chemically processed) pulp per year respectively.

Shell, already in Chile for 70 years, also decided on expanding into the country's forestry business. It invested $23m in a pine forest with a sawmill, but for its larger project chose to emphasise development of eucalyptus. Eucalyptus grows faster than pine (whose rotation for pulp wood is 15 to 22 years) and its fibre density is better for producing high-quality pulp. Many experts see it as Chilean forestry's main hope for the future.

For its eucalyptus project, Shell acquired two forests and some smaller lots for a total area of 27,000 hectares, a sawmill and, with Citibank and Scott Paper, a newly-completed pulp plant. Citibank and Scott each have a 20 per cent share, Shell holds 60 per cent. Shell's Santa Fe mill, the first eucalyptus pulp plant in Chile, is currently being converted by the Finnish engineering specialists, Jaakko Poyry Group, from its original purpose. Spanish investors, who ran out of money and had to abandon the project, had conceived the plant for pine pulp and paper.

Santa Fe's eventual annual production is expected to reach 220,000 tonnes of bleached pulp a year and generate annual exports of nearly $100m. Some 80 per cent of this production will be purchased by Scott.

The large investors are taking the high road on environmental protection, an increasingly sensitive issue as the Chilean forestry industry develops. The Government is concerned about contamination of the Bio-Bio River, the largest in Chile, and the source of water supply for the country's second largest city, Concepcion, as well as air pollution from chemical pulping. Shell will be adhering to US environmental standards, which are currently more stringent than Chile's, at a cost of $7m for pollution-control equipment at Santa Fe.

The volume of Chilean forestry production will rise so quickly over the next decade that infrastructure will be stretched. Conaf estimates that the state needs to make $165m worth of infrastructure investments in ports, roads and railroads. Making it will be up to the incoming democratic government, according to Conaf's chief, Mr Castro.

Some private companies have already invested in smoothing the path to get out their goods. Mitsubishi, for example, which invested $10m in a woodchip plant, also invested $4m in a wharfside dock. Shell had to spend $2.5m to rebuild a public road. Lagging infrastructure could slow the pace of development of Chile's forestry industry.

For the future, there are two other questions. It is unclear what will happen to plantation rates after Decree Law 701 expires in 1994. And transportation costs to its main markets in the Pacific Rim, North America and Europe could squeeze exports.

Nevertheless, Chile is expected to have a timber over-supply through the 1990s and it looks well set to weather any price dips.

BRITAIN'S FARM Woodland scheme could result in the planting of an extra 16m trees, including 2m oaks, Mr John MacGregor, the Minister of Agriculture, said yesterday.

Speaking during a visit to the Royal Norfolk Show at Norwich, the Minister said he was very pleased with the response to the scheme. In its first eight months, to the end of May, nearly 900 farmers had applied for grants to plant more than 6,000 hectares over the next three years. The planting target for that period is 36,000 hectares.

Restart doubts at copper plant

BELGIUM'S Metallurgie Hoboken Overpelt (MHO) said yesterday that it did not know if workers at its copper plant would obey a union order to return to work today, reports Reuter from Brussels.

The workers have been on strike over pay since June 8 at the plant in Olen, which produces all MHO's refined copper and fabricated copper products. The strike forced MHO to declare *force majeure* on all its outgoing copper shipments on June 14 and to extend this on June 21 to its raw copper purchases.

An MHO official said the workers had gone on strike without their union's authorisation in the first place. "This is why I cannot say whether they will obey the order," he said.

"The situation is not clear. If they all come back to work, it (the *force majeure* declaration) will be lifted rapidly. If only part of the workforce comes back I cannot say what will happen."

He said the union had accepted a pay offer on behalf of MHO's three Belgian nonferrous metal plants, including Olen, but that he did not know whether the deal would satisfy the Olen workers.

● In Toronto, the United Steelworkers of America local representing workers at the Highland Valley Copper Partnership, Canada's largest copper mine, said yesterday that its members had voted to strike if a settlement could not be reached before the expiry of the current agreement tomorrow 30.

Highland Valley is 55 per cent owned by Cominco and 45 per cent owned by Lorex Mining Corporation.

"After eight years of showing restraint in bargaining, it's time for the company to share its good fortune by negotiating a collective agreement that truly reflects its healthy position," said Mr Richard Boyce, president of the local. "The company has boasted of extraordinary profits," Mr Boyce added. "Instead of making a commitment to the workforce, they have just grown more greedy and are demanding concessions from us on every front."

WORLD COMMODITIES PRICES

LONDON MARKETS

COPPER PRICES rallied on the London Metal Exchange yesterday as the market followed the lead given in New York's Comex. The cash position closed at £1,631.50 a tonne, wiping out Tuesday's £34.50 fall, while three months metal closed £23 higher at £1,603.50 a tonne. Dealers said widespread trade buying had been attracted by previoous low levels, at which the market appeared somewhat oversold. Aluminium continued its slide with cash metal ending $17.50 down at $1,835 a tonne. Coffee values, having fallen heavily earlier in the week, dipped to fresh 10½-month lows in the morning before ending modestly up on the day. The market was edgy as the generally gloomy view on the outlook for the International Coffee Agreement was confused by speculation that major producers were working behind the scenes to rescue the pact.

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$15.40-5.50w	-0.15
Brent Blend	$17.90-8.00v	-0.20
W.T.I. (1 pm est)	$20.10-0.20w	-.275

Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$218-220	-4
Gas Oil	$143-144	-2
Heavy Fuel Oil	$87-89	
Naphtha	$154-156	-2.5
Petroleum Argus Estimates		

Other		+ or -
Gold (per troy oz)♣	$373.5	-2.5
Silver (per troy oz)♣	530c	-3
Platinum (per troy oz)	$504.5	-5.65
Palladium (per troy oz)	$154.6	-0.15
Aluminium (free market)	$1805	-50
Copper (US Producer)	114⅝-118c	
Lead (US Producer)	39.5c	
Nickel (free market)	550c	
Tin (European free market)	$10075	
Tin (Kuala Lumpur market)	26.57r	+0.03
Tin (New York)	464.5c	-1.0
Zinc (US Prime Western)	80⅜c	
Cattle (live weight)†	117.72p	+2.37*
Sheep (dead weight)†	179.84p	+19.3*
Pigs (live weight)†	87.29p	+3.90*
London daily sugar (raw)	$347.0x	+7.0
London daily sugar (white)	$446.0x	+17.0
Tate and Lyle export price	£337.0	+3.0
Barley (English feed)	£105.5w	
Maize (US No. 3 yellow)	£131.5	
Wheat (US Dark Northern)	£133.5u	+0.5
Rubber (spot)♥	60.00p	
Rubber (Aug)♥	64.75p	
Rubber (Sep)♥	65.50p	
Rubber (KL RSS No 1 Jul)	254.0m	-2.0
Coconut oil (Philippines)§	$555x	-5
Palm Oil (Malaysian)§	$360	-15
Copra (Philippines)§	$350	-5
Soyabeans (US)	£208	+6
Cotton "A" index	80.3c	-0.2
Wooltops (64s Super)	624p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. v-Jul. u-Jun/Jul. x-Jul/Aug. w-Aug. z-Aug/Sep. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

COCOA £/tonne

	Close	Previous	High/Low
Jul	832	830	838 832
Sep	853	852	860 850
Dec	909	907	920 907
Mar	898	898	909 897
May	907	907	914 907
Jul	924	921	928
Sep	938		944 940

Turnover:7085 (2609) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Jun 28 1049.95 (1046.66) :10 day average for Jun 29 1024.27 (1019.56)

COFFEE £/tonne

	Close	Previous	High/Low
Jul	1025	1020	1050 1010
Sep	1011	1000	1015 990
Nov	1017	997	1018 988
Jan	1025	1010	1025 1005
Mar	1039	1022	1037 1017
May	1052	1032	1054 1030
Jul	1065	1070	1080 1056

Turnover:3822 (6560) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Jun 27: Comp. daily 96.54 (97.57) . 15 day average 103.77 (104.81)

SUGAR ($ per tonne)

Raw	Close	Previous	High/Low
Aug	304.00	306.00	315.00 303.00
Oct	303.00	306.60	315.00 301.00
Dec	292.00	297.00	300.00 299.00
Mar	287.00	289.20	296.00 286.80
May	285.00	287.00	293.80 285.00
Oct	274.00		282.00 276.00

White	Close	Previous	High/Low
Aug	436.00	427.00	347.00 327.50
Oct	383.00	377.00	391.00 376.50
Dec	370.00	365.50	375.00 367.50
Mar	355.00	351.50	363.00 355.00
May	353.00		360.00
Aug	352.00		357.00
Oct	350.00		356.00

Turnover: Raw 6107 (3297)lots of 50 tonnes. White 2084 (735).
Paris- White (FFr per tonne): Aug 2980 Oct 2665, Dec 2500, Mar 2390, May 2390, Aug 2390, Oct 2260.

CRUDE OIL $/barrel

	Close	Previous	High/Low
Aug	17.40	17.47	17.45 17.30
Sep	17.09	17.16	17.11 16.99
Oct	16.86	16.97	16.86 16.80
IPE index	17.44	17.41	

Turnover: 8920 (8144)

GAS OIL $/tonne

	Close	Previous	High/Low
Jul	142.75	144.25	143.75 142.50
Aug	143.50	144.75	144.00 142.50
Sep	144.50	146.00	146.00 144.25
Oct	146.50	147.75	148.00 145.50
Nov	148.75	149.25	149.50 148.00
Dec	150.00	149.50	150.00

Turnover 6960 (5501)lots of 100 tonnes

WOOL
This is the final week of the Australian selling season. Prices are steady with the AWC buying around 20pc of the offering, though much of this is of carding wools. The floor price for next season will be known within days and is expected to be only a fraction higher. European holidays are imminent and always lead to extremely subdued demand during July and August. Trade demand throughout therefore remains dull, and where new orders are placed they tend to take full advantage of competitive prices and any stocks around. Top prices in Bradford are quoted at about 620p/kg for 64s super and 440p for 58s average.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover tonne
Cash	1830-40	1850-5		1800-5		
3 months	1795-800	1827-30	1825/1785	1790-2	1807	32,870 lots
Copper, Grade A (£ per tonne)						Ring turnover tonne
Cash	1630-3	1596-7		1620-2		
3 months	1603-4	1580-1	1605/1575	1592-3	1603	72,913 lots
Lead (£ per tonne)						Ring turnover tonne
Cash	426-8	424-6		423-4		
3 months	406-10	406-7	410/406	405.5-6.5	409	9,545 lots
Nickel ($ per tonne)						Ring turnover tonne
Cash	12050-100	12100-50		11900-50		
3 months	11100-50	11200-50	11200/11125	11100-200	11150	6,670 lots
Tin ($ per tonne)						Ring turnover tonne
July 3	10050-60	10060-70		10025-50		
3 months	9985-90	9960-10000	9990	9985-90	9990	2,014 lots
Zinc, Special High Grade ($ per tonne)						Ring turnover tonne
Cash	1660-70	1720-30		1670-5		
3 months	1570-80	1595-9	1585/1570	1584-5	1585	10,992 lots
Zinc ($ per tonne)						Ring turnover tonne
Cash	1587-9	1590-660		1560-5		
3 months	1500-5	1510-20	1506/1495	1490-5	1506	9,255 lots

POTATOES £/tonne

	Close	Previous	High/Low
Nov	121.0	117.0	120.0
Feb	140.0	132.0	
Apr	203.0	191.9	205.0 196.0
May	222.0	210.0	224.0 219.0

Turnover 661 (801) lots of 40 tonnes.

SOYABEAN MEAL £/tonne

	Close	Previous	High/Low
Aug	158.00		158.00
Oct	153.00	151.50	153.00
Dec	150.00		150.00 148.00

Turnover 52 (25)lots of 20 tonnes.

FREIGHT FUTURES $10/index point

	Close	Previous	High/Low
Jun	1398	1396	1398 1396
Jul	1383	1366	1384 1370
Oct	1515	1501	1515 1505
Jan	1548	1542	1549 1545
Apr	1580	1580	1580 1575
BFI	1393	1391	

Turnover 166 (160)

GRAINS £/tonne

Wheat	Close	Previous	High/Low
Sep	104.40	105.65	104.50
Nov	108.00	108.80	108.00
Jan	111.30	112.70	111.50
Mar	114.20	115.70	114.35 114.30
May	116.15	119.25	116.25

Barley	Close	Previous	High/Low
Sep	104.40	104.40	104.50
Nov	108.00	108.20	108.00
Jan	111.30	111.50	111.50
Mar	114.20	114.35	114.35 114.30
May	116.15	116.25	116.25

Turnover: Wheat 191 (155), Barley 77 (25).
Turnover lots of 100 tonnes.

PIGS (Cash Settlement) p/kg

	Close	Previous	High/Low
Jun	110.0	113.5	
Aug	111.5	110.5	
Oct	116.0	115.0	115.0
Nov	116.5	116.0	116.0
Feb	109.5	109.0	

Turnover 15 (5) lots of 3,250 kg

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	373¼-373¾	239¼-239¾
Opening	373¾-374¼	240½-241
Morning fix	373.75	238.791
Afternoon fix	373.75	239.353
Day's high	374¼-374¾	
Day's low	370¾-371½	

Coins	$ price	£ equivalent
Mapleleaf	385-390	247-250
Britannia	385-390	247-250
US Eagle	385-390	247-250
Angel	382-387	245-248
Krugerrand	373-378	239-241
New Sov.	87½-88½	56-56¾
Old Sov.	87½-88½	56-56¾
Noble Plat	508.75-514.85	325.25-330.45

Silver fix	p/fine oz	US cts equiv
Spot	339.65	530.00
3 months	351.30	542.40
6 months	363.45	554.90
12 months	388.60	578.25

LONDON METAL EXCHANGE TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Jul	Sep	Jul	Sep
1750	66	95	4	45
1850	20	48	37	95
1950	2	21	118	165
Copper (Grade A)	**Calls**		**Puts**	
2400	136	150	4	72
2500	57	99	25	119
2600	15	62	81	179

LONDON FOX TRADED OPTIONS

Coffee	Sep	Nov	Sep	Nov
950	101	151	41	85
1000	73	72	63	85
1050	51	51	91	84
Cocoa	**Sep**	**Dec**	**Sep**	**Dec**
800	63	124	12	16
850	32	89	31	31
900	14	61	63	53

US MARKETS

IN THE METALS, prices slipped in the gold, silver and platinum as a firm dollar and lower energy prices weighed on the markets, reports Drexel Burnham Lambert. Copper futures were the days exception as strong London buying along with stop orders fueled its 145 point rally. In the softs, news of Soviet buying sent sugar prices as high as 1410 basis July before trade selling on the close sank prices. Trade and speculative depressed the cocoa market. Coffee gained as positive ICO news prompted short covering. The grains all closed mixed. Soyabeans fell from elected stop orders. Wheat and corn futures were steady as some price consolidation took place after Tuesday's strong advance. Cotton trading featured sideways action. The energy complex declined as scattered long liquidation eased its recent upward move. The livestocks featured higher belly prices due to scattered short covering. A lower cash market kept the cattle weak. Hog futures had a slow session closing unchanged.

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Jun	376.5	378.6	378.6	374.8
Jul	377.0	377.5	0	0
Aug	379.2	379.8	381.5	375.0
Oct	383.3	383.9	385.9	380.0
Dec	387.5	388.1	389.8	383.0
Feb	391.7	392.2	391.3	391.3
Apr	395.9	396.4	396.0	394.5
Jun	400.1	400.6	400.0	395.5
Aug	404.3	404.8	405.0	405.0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Jul	503.6	514.4	509.0	503.0
Oct	506.3	517.1	511.5	506.0
Jan	507.6	518.6	512.2	508.0
Apr	511.1	522.1	518.7	513.0
Jul	514.6	525.8	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Jun	528.2	530.6	528.7	527.8
Jul	528.5	531.0	532.4	526.5
Aug	533.0	535.5	0	0
Sep	537.9	540.4	542.0	536.0
Dec	550.8	553.3	554.5	549.5
Jan	554.3	556.8	0	0
Mar	562.6	565.1	565.5	561.5
May	571.0	573.5	0	0
Jul	579.5	582.0	582.0	580.0
Sep	588.2	590.7	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)

June 27	June 26	mnth ago	yr ago
2014.7	2023.2	2014.4	2024.4

DOW JONES (Base: Dec. 31 1974 = 100)

Spot	133.25	132.59	132.03	139.10
Futures	131.63	131.38	137.75	142.66

COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jun	108.55	107.10	109.90	108.70
Jul	108.65	107.20	110.60	106.00
Aug	107.35	106.50	0	0
Sep	106.60	106.00	108.90	106.30
Dec	103.40	103.00	105.05	103.30

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Aug	20.05	20.46	20.30	20.00
Sep	19.27	19.63	19.53	19.22
Oct	18.72	19.07	19.00	18.70
Nov	18.40	18.70	18.60	18.37
Dec	18.18	18.48	18.40	18.11
Jan	17.98	18.22	18.13	17.95
Feb	17.83	18.07	18.10	17.89
Mar	17.63	17.95	17.85	17.63
Apr	17.69	17.85	0	0
May	17.65	17.76	17.65	17.65

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Aug	4975	5101	5070	4955
Oct	5095	5216	5160	5080
Nov	5165	5276	5235	5165
Dec	5215	5336	5300	5215
Jan	5225	5346	5300	5225
Feb	5171	5271	5200	5171

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Jul	1209	1224	1221	1209
Sep	1237	1257	1260	1232
Dec	1270	1290	1292	1265
Mar	1281	1299	1298	1280
May	1289	1309	1305	1280
Jul	1305	1322	0	0
Sep	1327	1360	1339	1335

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Jul	114.38	111.50	115.60	111.00
Sep	107.47	105.39	109.00	106.00
Dec	105.22	103.51	107.00	103.50
Mar	106.24	105.00	108.00	105.00
May	107.25	106.90	109.00	106.60
Jul	110.25	107.05	110.00	109.50
Sep	108.25	107.38	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	13.68	13.70	14.10	13.65
Oct	13.53	13.74	14.12	13.48
Jan	12.69	12.90	12.76	12.75
Mar	12.97	12.98	13.25	12.95
May	12.90	12.90	13.11	12.90
Jul	12.80	12.75	12.95	12.88
Oct	12.60	12.54	12.75	12.60

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Jul	68.88	67.20	69.00	68.88
Oct	69.75	70.09	70.50	69.65
Dec	70.23	70.46	71.10	70.10
Mar	70.95	71.15	71.55	70.95
May	71.40	72.00	72.20	71.40
Jul	71.65	72.00	72.15	72.10
Oct	67.70	67.95	69.15	67.40

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	178.30	181.75	182.50	177.80
Sep	172.60	174.75	175.00	171.30
Nov	160.60	161.60	161.50	159.00
Jan	153.90	156.10	154.00	152.50
Mar	153.25	154.25	154.00	150.40
May	152.75	153.90	0	0
Jul	152.75	153.80	0	0
Sep	152.75	153.80	0	0

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jul	727/6	738/4	739/0	726/0
Aug	701/4	706/0	711/0	700/0
Sep	661/2	663/2	669/6	659/0
Nov	646/0	646/0	652/4	643/0
Jan	654/2	653/6	660/4	651/0
Mar	662/4	661/0	666/0	659/0
May	666/6	667/0	673/0	668/0
Jul	668/0	667/0	673/0	666/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Jul	20.64	20.47	20.79	20.50
Aug	20.87	20.64	21.00	20.69
Sep	21.02	20.81	21.17	20.87
Oct	21.15	21.03	21.30	21.05
Dec	21.40	21.29	21.58	21.20
Jan	21.42	21.35	21.60	21.35
Mar	21.75	21.62	21.90	21.70
May	21.82	21.70	21.80	21.85

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Jul	214.6	217.4	218.8	214.3
Aug	208.6	209.8	211.5	206.2
Sep	202.9	203.2	205.5	202.5
Oct	196.5	196.0	198.0	195.0
Dec	194.2	193.6	196.0	193.3
Jan	193.5	192.0	195.5	193.0
Mar	192.7	191.5	195.0	192.5
May	193.0	190.0	194.0	193.0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Jul	264/6	262/6	266/4	263/4
Sep	250/6	249/0	252/4	249/2
Dec	247/2	244/2	248/4	245/4
Mar	253/6	250/4	258/0	251/4
May	255/6	252/2	256/0	253/6
Jul	256/6	252/2	259/0	255/0

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Jul	412/2	412/4	414/2	408/4
Sep	413/6	411/2	415/2	410/2
Dec	423/6	420/2	425/0	420/0
Mar	425/0	420/2	426/0	421/0
May	411/0	406/4	412/0	409/0
Jul	374/4	370/0	375/0	375/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Aug	70.42	70.57	70.47	70.17
Sep	71.30	71.50	0	71.30
Oct	73.22	73.37	73.25	72.92
Dec	72.72	72.70	72.90	72.40
Feb	71.77	71.70	71.87	71.42
Apr	72.45	72.30	72.55	72.12
Jun	71.30	71.10	71.40	70.97

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low	
Jul	49.10	49.10	49.15	48.60
Aug	48.32	48.30	48.40	47.88
Oct	43.90	44.02	43.97	43.70
Dec	46.00	46.12	46.05	45.67
Feb	46.95	47.12	47.00	46.60
Apr	43.95	44.15	44.05	43.87
Jun	48.20	48.17	48.50	47.85

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Jul	35.35	34.75	35.40	34.55
Aug	35.95	34.95	35.60	34.87
Feb	52.62	52.00	52.80	52.00
Mar	52.30	51.60	52.60	52.00
Jul	53.80	52.50	53.80	53.40
Aug	50.60	50.50	50.80	50.60

LONDON STOCK EXCHANGE

Equities struggle in sluggish trading

EUPHORIA in the UK stock market over last month's improvement in the UK trade deficit appeared to melt away in slow trading yesterday. Share prices soon abandoned an initial follow-through to Tuesday's gains and had to struggle to stay in positive territory after a sharp dip in US leading economic indicators reminded investors of the dangers of recessionary pressures for corporate profits. Nervousness over interest rates was re-stirred by the prospect of today's meeting of the Bundesbank council.

The FT-SE Index ended a net three points up on the day at 2,209.4, statistically another post-Crash peak; but a rise of nearly 20 points in the first hour had been quickly cut back as overnight buying orders were completed and it became clear that the big institutions had no intention of chasing stock prices. Sentiment was further strained at the close by sterling's inability

Account Dealing Dates		
First Dealings:		
Jun 12	Jul 3	Jul 17
Option Declarations:		
Jun 29	Jul 13	Jul 27
Last Dealings:		
Jun 30	Jul 14	Jul 28
Account Day:		
Jul 10	Jul 24	Aug 7

*New time dealings may take place from 8.00 am two business days earlier.

to hold on to early gains and by a dull opening on Wall Street.

However, with the equity market shut down one hour earlier than usual as the City of London grappled with the latest one day stoppage by national rail and London underground workers, turnover was unimpressive and some sectors were not fully tested. Seaq volume of 446.2m shares, at the early close of 4.00pm, indicated a significant reduction from the 498.2m registered by 5.00pm on Tuesday.

The session opened vigorously as sterling at first showed further improvement and gains in Government bond prices took bond yields below 10 per cent. While research and fund manager staff attendances were reduced by commuter travel problems, equity trading desks were adequately manned.

But with neither sterling nor bonds able to sustain early promise and institutional support for equities notable by its absence, share prices soon slipped back and at mid-session dipped briefly into negative territory.

Investment sentiment was further discouraged by the disclosure that US leading economic indicators had fallen by 1.2 per cent in May; analysts had bargained for a smaller fall, perhaps of 1 per cent, and took the official figure as a further indication of a slowdown in the US economy, with unhelpful implications for the economic outlook on this side of the Atlantic.

However, the market steadied as GEC, the UK electrical and defence group, announced significantly better profits for 1989 than market analysts had expected – although the London market still keenly awaits the renewal of the GEC-Siemens bid for Plessey which is expected by the middle of next month. Share prices were edging upwards in the final moments of the trading session.

FINANCIAL TIMES STOCK INDICES

	Jun 28	Jun 27	Jun 26	Jun 23	Jun 22	Year Ago	1989 High	1989 Low	Since Compilation High	Since Compilation Low
Government Secs	85.55*	85.35	84.39	84.45	84.51	87.94	89.29 (9/2)	83.75 (14/6)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	95.02*	95.01	95.82	95.54	95.89	97.80	99.59 (16/3)	95.21 (13/6)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary	1832.4*	1829.7	1809.3	1797.7	1809.3	1479.7	1837.5 (19/5)	1447.8 (3/1)	1926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines	193.2	192.6	190.7	192.8	193.2	207.1	196.7 (25/6)	154.7 (17/2)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div. Yield	4.36	4.36	4.41	4.44	4.41	4.53				
Earning Yld %(full)	10.27	10.26	10.39	10.46	10.39	11.56				
P/E Ratio(Net)(*)	11.75	11.74	11.60	11.52	11.60	10.83				
SEAQ Bargains(5pm)	25,374	27,068	25,004	22,483	23,721	22,105				
Equity Turnover(£m)	-	1285.37	1297.06	1466.60	1722.9	905.61				
Equity Bargains†	-	27,601	27,561	28,436	28,878	24,111				
Shares Traded (mil)†	-	418.1	492.0	511.6	555.6	400.9				

Ordinary Share Index, Hourly changes

Opening	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
NA	1844.2	1835.5	1834.4	1830.4	1833.2	1832.7	1832.4

DAY'S HIGH 1845.4 DAY'S LOW 1830.0

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, SE Activity 1974. *Nil 11.64 †Excluding intra-market business. *Based on 4.05pm closing prices

S.E. ACTIVITY

Indices	Jun 27	Jun 26
Gilt Edged Bargains	129.0	98.0
Equity Bargains	178.2	173.6
Equity Value	2585.1	2621.7
5-Day average		
Gilt Edged Bargains	93.1	88.3
Equity Bargains	173.5	170.8
Equity Value	2764.5	2701.8

● London Report and latest Share Index: Tel. 0898 123001

Profits please at GEC

The rise in GEC's full year dividend payout had been expected in some quarters of the equity market, but analysts were pleasantly surprised by the pre-tax profit total. Kleinwort Benson had predicted a profit figure of £780m, and County NatWest WoodMac had set a target of £770m, so the actual figure of £797m helped take the share prices up by 8 to 258p. Turnover of 9.7m shares confirmed that the market concurred with a generally bullish view of the shares among analysts.

While the market is concentrating on the prospects for news shortly of a renewed GEC-Siemens offer for Plessey, the stock is also recommended on underlying investment grounds. Both Kleinwort and County forecast profits of around £850m pre-tax for the current year, without making any assumptions of ownership of Plessey. Yesterday's share gain, in a somewhat unimpressive equity sector, contrasts with the stock's sluggish performance over the past five months.

County sees strength in the shares on the basis of an improving earnings profile in the core businesses, the impending benefits from the joint ventures with General Electric of the US and with Alsthom and CGEE of France, and from the likely renewal of the bid for Plessey.

Dividend buying

Calor Group, the bottled gas supplier, climbed steadily through the day, insured both by the buoyancy of the oil and gas sector and also by demand from income funds which were attracted by a favourable dividend situation and by the probability that a large block of stock may be bought shortly.

The stock goes ex an 11.6p dividend on Monday and a change in accounting will bring next year's ex dividend date forward, probably to April. Three dividends in 10 months was too tempting for many.

Calor's 42 per cent stakeholder, SHV of The Netherlands, is said to be on the point of selling its stake in a Dutch food group to raise £83m. SHV is entitled to increase its holding in Calor by 2 per cent a year, worth around £13m, and may buy this year's block soon. It cannot buy more than 2 per cent without triggering a full bid, a move analysts consider unlikely because SHV already has effective control of Calor and, moreover, has a strategy of holding 50 per cent of European liquid gas suppliers and then adopting a hands-off management approach.

Calor shares touched 464p before settling at 462p, a net rise of 9. Turnover was 518,000 shares.

The oil sector, with the wind behind it, as one analyst put it, featured well in the day's trade. The likelihood of an announcement today of the allocation of North Sea exploration acreages – the 11th licencing round – excited more than just the likely beneficiaries.

British Gas advanced to a post-crash high of 196p boosted by US buying, before easing at the close to 195p, a net rise of 2 as 8.5m shares changed hands. Further thoughts of North Sea acreages allocations, likely to be announced in Parliament today, boosted Clyde Petroleum 3 to 154½; Enterprise Oil 18 to 588p and Premier Consolidated 4½ to 104p.

Lasmo, another possible winner from the licencing round, burst through the important 480p barrier to close 14 better at 492p. Turnover, at 3m shares, was particularly good for Lasmo. Institutions that took stock in 1988's placing are now sitting on a 12p profit, once this year's rights issue is taken into account. Some analyst had forecast some profit-taking at these levels, but Mr Keith Morris of the oils team at Kitcat & Aitken said: "the chartists would tell you that it is heading for £5."

Widespread positive sentiment on the back of a firm oil price and possible lower output from Opec members underpinned the majors. Burmah added 10 at 626p on thin volume as the old chestnut of a possible bid from Pennzoil resurfaced. Analysts give the notion little credibility on the grounds that the predator would get horribly burned by UK and US tax bills.

There was good trade in BP (2 better at 302p) and Shell (up 3 at 452p) volume were 9.2m and 3.7m respectively. Dealers spotted Japanese buying, especially of BP, and said that the company's presentation late on Tuesday to Japanese institutional investors based in London, did the trick.

Among smaller stocks, Tuskar Resources firmed 4 to 77½p. Dealers pointed to appraisal drilling in Colombia, where the company made a discovery recently, and vague talk of a consortium bid at 90p, possibly involving Shell. "Given their reserves, they look cheap," said an analyst.

Scottish banks were the features among lacklustre clearers. Royal Bank of Scotland adding 7 at 387p and Bank of Scotland 4 at 96p. TSB eased a penny to 110p ahead of today's interims; BZW is forecasting £185m, down £22m from the same stage last year, while Nomura Research predicts £172m. Among merchants Morgan Grenfell regained some of their recent losses with a rise of 8 to 277p, while the news that major Danish shareholder Baltica had sold its subsidiary Baltica Invest to its management helped Hambros firm 2 to 268p.

Insurance broker Willis Faber gained 8 at 247p after one dealer went round the market bidding 242p for stock.

Allied Lyons gained 5 to 462p on turnover of 3.4m shares after BZW, the London securities house, upgraded its profits forecast for the brewer by £15m to £578m for the year-end 1990. BZW cites the affect of the good weather on ice cream and beer sales, and strong performance from the spirits division, especially in Southern Europe and Japan, for the new forecast.

Other brewers were a mixed bag, with Bass, still widely favoured in the market, up 8 at 1022p, Whitbread "A", down 6 at 348p, and Guinness, down 4 at 521p on turnover of 2m shares. Uncertainty surrounding the Elders IXL stake left Scottish & Newcastle 5 weaker at 358p.

Blue Circle traded more positively as the market dismissed reports of a labour dispute which could affect cement production. The shares rebounded to 523p and RMC followed in the wake with a rise of 11 to 785p. Redland were wanted and closed 6 up at 584p but BPB Industries became uncertain awaiting today's preliminary statement and slipped to 229p. Hoare Govett is looking for profits of £282m while BZW forecasts a slightly higher figure of £285m.

A rising market for several sessions, Chemoxy International jumped 17 further to 250p after news of nearly doubled profits.

In spite of the transport strike, early close and lack of institutional orders a number of leading Stores stocks traded in good sizes, most notably Marks and Spencer, up 2 at 199p on turnover of 6.2m shares, Sears, steady at 117p on 3.3m, and Burton, 5 better at 225p on volume of 2.8m.

The interest in the Burton left dealers puzzled; none could find an explanation for the rise other than that the shares were due a rally after recent weakness. A large buyer early in the day gave the price its initial boost, and although one marketmaker went round the market late in the session selling stock at 223p, the price held up well at 225p.

The squeeze on Kingfisher continued, the shares adding another 8 at 325p, in very light trade.

Further selling pressure took Amstrad down 3 to 51p as the market continued to take a nervous view of the shares. Several analysts, notably Mr Patrick Wellington of County NatWest WoodMac, have warned against succumbing to the temptation to buy the shares merely because of the 47 per cent fall over the past three months. However, turnover was light yesterday and market makers appeared to be moving the price readily in the face of light selling.

Once again there was heavy trading in Asda. Three large bargains of 3.8m, 2m and 1m shares were punched into the Seaq system during lunchtime. The deals were probably part of a sell order, and the Asda price closed the session 3 lighter at 160p.

The war of words between over Gateway continued. Just after Salomon Brothers announced that it had valued the Isosceles stub equity at between 30 and 35p rival bidders Newgateway revealed that it was considering increasing its current offer of 237p a share. With both parties prevented by the Takeover Panel from buying further stock, the latest developments had little affect on Gateway, which closed 1½ higher at 239p on turnover of 1.4m shares.

A £6.5m Spanish acquisition and talk of a possible strike at one of its distribution plants sent Cadbury Schweppes 4 lower to 365p as 2.3m shares changed hands, while continued talk of a US or European stakebuilder helped United Biscuits add another 4 at 366p in good trade.

Rolls Royce broke the £2 barrier for the first time since the crash of October 1987 as 4.1m shares changed hands. But new pastures served only to tempt profit-takers and the stock slipped back to 198p, a penny off on the day.

Weir Group benefited from a County NatWest WoodMac profits upgrading to £23.6m from £22.5m for the current year. "Trading and order flows are very good," said Mr Pete Deighton at County. The stock climbed 9 to 297p.

A single early trade of 2.96m Blue Arrow shares, nearly half the day's total, helped the stock firm to 100p.

USM-quoted Interlink Express slumped 65p to 208p when it warned of losses in its West German franchises.

Speculation refused to fade that majority shareholder Caparo Industries would make an offer for Armstrong Equipment and the shares climbed 5 more to 178p. Caffyns, a tightly held stock, roared higher late to end 70 up at 558p.

Pearson, figured more prominently, rising 18 to 732p on volume of nearly 1m shares. The institutions caught on that the shares have been left behind recently and some increased their weightings yesterday, explained a marketmaker.

Yellowhammer, the agency, further responded to annual figures slightly ahead of expectations. BZW reaffirmed its recommendation to accumulate the stock, believing that the company has resumed its pace of expansion in profits after flat interims. "The current discount to the market will prove to be a very good buying opportunity, said analyst Mr Brian Sturgess, as the shares improved to a peak for the year of 208p.

The sale of a line of 800,000 shares in MEPC left the property group's price in the red, the stock ending the day 5 weaker at 579p on turnover of over 2m. In contrast, a miserly 400,000 shares were traded in the other sector leader, Land Securities, which also went against the trend to close 8 lighter at 577p. Frogmore Estates rose 5 to 537p in response to the news that Markheath Securities had increased its stake to over 17 per cent. Markheath, unchanged at 100p, is the UK vehicle of Mr John Spalvins, Australian entrepreneur, and in spite of recent speculation that he was trying to sell his holding in Frogmore, the UK group's shares continue to be underpinned by hopes of a full bid from Markheath.

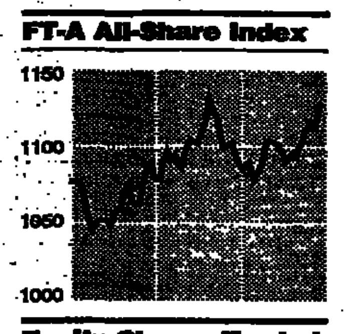
The re-rating of Courtaulds showed few signs of slowing, the stock again recording good turnover (1.9m shares) and a fresh gain of 6 at 356p.

Newsletter comment describing Tranwood as "a jewel of an opportunity" directed buyers towards the shares again and the close was 1½ higher at 47p. Smith New Court held at 109p despite market gossip that the securities house will be hard put to show a profit when it reports on Friday.

The recent aggressive buyer of Polly Peck reappeared and the shares bounded 6 to 283p.

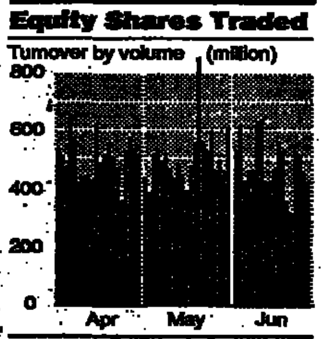
■ Other market statistics, including FT-Actuaries Share Index and London Traded Options, Page 22

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)



TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 4.05pm

Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

NEW HIGHS AND LOWS FOR 1989

NEW HIGHS (138).
BRITISH FUNDS (3) AMERICANS (3) BANKS (2) Schroders, Do. NV, BREWERS (1) Marston Thompson BUILDINGS (1) NSM, CHEMICALS (6) Allied Colloid, Canning (W.), Chemoxy Int'l., Ellis & Everard, Imp. Chem., STORES (3) ELECTRICALS (16) ASEA AB "A", Do. "B", CML Microsystems, Ericsson (L.M.), Gardiner Grp., Penny & Giles Int'l., Pelon, TBI, Thorn EMI, Do. 7pc Pf. '92-99, ENGINEERING (8) Adwest Grp., Atlas Conv. Eqp., Johnson & Firth, Linread, ML Hldgs., Rolls Royce, INDUSTRIALS (18) BOC, Barry Wehmiller, British Vita, Brooke Service, Capita Grp., Channel Express Grp., Charter Cons., Cookson, Ralne, Hanson, Hunting Assoc., Porter Chadburn, RPS Grp., Rank Org., Ropner, Scapa Grp., Serco Grp., Sothebys Hldgs Class "A", Unilever, INSURANCE (1) Britannia, LEISURE (1) European Leis., MOTORS (2) Armstrong Eqp., Caffyns, PAPERS (3) PROPERTY (3) Broadwell Land, Frogmore Ests., Priest Marians, SOUTH AFRICANS (3) TEXTILES (2) Courtaulds, Hicking Pentecost, TOBACCOS (1) Rothmans, TRUSTS (38) OILS (11) OVERSEAS TRADERS (1) MINES (2) THIRD MARKET (2).

NEW LOWS ( ).
AMERICANS (1) CANADIANS (1) BUILDINGS (2) Caxton Phoenix, CHEMICALS (1) Gaynor Grp., STORES (2) Blacks Leis., Gabicci, ELECTRICALS (3) FOODS (1) Hughes Food, HOTELS (1) INDUSTRIALS (8) CMB Pack. New., Interlink Express, Lincat Grp., MB Group, MY Hldgs., Metal Closures, Myson Grp., Sale Tilney, MOTORS (1) NEWSPAPERS (1) PAPERS (2) TEXTILES (2) Jerome Hldgs., West Trust.

BUSINESS LAW

The Warsaw Convention crisis

By Bin Cheng and Peter Martin

The 1929 Warsaw Convention is facing a crisis. The treaty was signed 60 years ago in an attempt to simplify the complex problems of legal liability in international carriage by air by harmonising the laws of the 30 contracting states. Since then it has been almost universally accepted in either its original or its slightly modified 1955 form and is applicable to practically all international carriage by air.

Criticism of the Warsaw Convention system has risen substantially in recent years, primarily because the balance of benefits it established has now shifted disproportionately and overwhelmingly in favour of the carrier at the expense particularly of passengers. The amount of damages they or their families can recover for injury or death is worsening in real terms all the time.

The maximum damages payable by a carrier in respect of the personal injury or death of a passenger suffered in the course of carriage by air are limited under the Warsaw Convention system, in the absence of faulty documentation or consciously wrongful conduct ("wilful misconduct"), to *approximately $10,000 (£6,500)* or, under the 1955 revision, $20,000, depending on the journey undertaken. Occasionally, a special contract for a higher ceiling, usually either $75,000 or SDR 100,000, applies.

There are signs that, unless action is taken soon either by airlines themselves or by governments to bring about a fair deal for victims, the system may disintegrate to the detriment of all.

What has gone wrong? The treaty was drawn up during the dawn of civil aviation in terms of technology, commercial operation, and aviation insurance.

It was designed to afford a degree of protection to the airline industry in the form, particularly, of limiting the carrier's liability by laying down specific maxima of damages in the carriage of passengers, baggage and cargo, all expressed by reference to the value of gold.

These maxima were to be exceeded only as a penalty for faulty documentation or on proof of "wilful misconduct" on the part of the carrier or of his servants or agents. Departure from the gold standard has prevented the gold clause in the treaty from operating freely. As a result these maxima have been steadily declining in real terms.

Instead of restoring to air passengers their right to full recovery in case of death or injury when conditions clearly permit them to do so, carriers, up to now strongly supported by their governments, have been clinging tenaciously and blindly to the outmoded privilege of their curtailed liability, even though it is true that some claims are so grossly exaggerated that they inevitably contribute to the carriers' excessive defensiveness.

The sacrifices which such a system imposes on some victims and the burden which it frequently shifts on to other possible co-defendants, such as manufacturers of aircraft and components who may be liable under product liability laws, airport operators, air traffic controllers and regulators (and their insurers), are now beginning critically to rebound against the airlines and the airline industry.

This may force many governments, including the most influential, to abandon the Warsaw Convention system altogether, and with it all of its advantages. Paradoxically, the strict interpretation of the *treaty by the courts in recent* years in some countries, particularly in the US, may accelerate this process.

Leaving aside baggage and cargo issues, the remedy which some carriers and their governments now advocate in relation to passengers consists in the hastily drawn up 1971 Guatemala City Protocol and the subsequent and equally ill-thought out 1975 Montreal Additional Protocol No.3 (MAP3), into which the Guatemala City Protocol has been incorporated.

The chief objection to the Guatemala City Protocol and MAP3 is that they render the limit of the carrier's liability per passenger for death or injury, fixed at SDR 100,000 (approximately $125,000), absolutely unbreakable. And this is so, even if the injury to passengers were intentionally caused by the criminal acts of the carrier or of his servants and agents. MAP3, if brought into force, would make the position of many passengers worse than that in which they find themselves at present.

All airlines presently operating the 1966 inter-carrier Montreal Agreement, initiated by the US Government for flights to, from and via the US, already assume absolute liability for injuries, even fatal, suffered by their passengers during carriage. Many apply a limit of $75,000 or of SDR 100,000 to all their carriage of passengers either voluntarily or because of some national requirement.

MAP3, the adoption of which has been vigorously urged in the US until the PanAm Lockerbie disaster in December 1988, offers passengers no more than these two concessions; but it deprives them of the possibility of recovering full compensation when there is faulty documentation or wilful misconduct on the part of the carrier or his servants or agents.

Much has also been made in America of the national supplementary compensation schemes permitted under MAP3 and intended to provide compensation on an unlimited basis (but subject to certain reserves).

If, however, the latest version of the proposal of such a scheme for the US submitted by the Department of Transportation to the Senate in June 1988 is any guide, its administration promises to be highly complex, while the benefits are not likely to be satisfactory.

While the plan is to be paid *for by, and to cover, all those* whose international carriage originates in the US, its benefits are to be available to all American citizens and permanent residents carried under the Warsaw Convention system anywhere in the world, without their having to make any contribution to the scheme.

On this basis, if many other states were to establish similar plans, then there would be complex duplications of cover and complicated procedures in unravelling the resultant tangle. Yet if no other state is to have a supplementary compensation plan, and none has yet given signs of any, many passengers will find their right of recovery against the carrier drastically reduced by MAP3 without receiving any compensating benefit.

Even the US plan intends to pay only damages for economic loss and is subject to an overall ceiling of $500m per incident per aircraft.

In the present, highly sensitive atmosphere in the wake of the Lockerbie disaster, the US administration is no longer anxious to push for ratification of MAP3. This puts considerable pressure on other governments, which all the while have been looking to the US for a lead, urgently to consider their own position.

Various independent proposals to reform and revitalise the Warsaw Convention system have recently been made, among them the *Alvor Draft Convention relating to International Carriage by air*, which seeks to retain what is best in the Warsaw Convention system, while adapting it to present-day conditions.

On the question of passenger death or injury, however, there is much to support the system of absolute and uncurtailed liability contained in the Cheng-Martin initial draft, on which the Alvor Draft Convention is based.

Although drawing up and bringing into force universally a fresh convention on airline liability may take time, there are ways in which the present unfairness in liability for passenger death or injury can be redressed without the necessity of a treaty or amending protocol.

Airlines could voluntarily assume absolute and uncurtailed liability by waiving the relevant defences applicable under the Warsaw Convention (Articles 20(1) and 22(1)).

Such a system could be *imposed by governments* through national air transport licensing and, where possible, foreign carrier permit systems.

Airlines could voluntarily abandon all limitation, immediately or progressively. Progress could be made by an immediate increase of the ceiling in special contracts to, say, $500,000 or even $1m.

A criminal injuries compensation scheme administered by the industry could be created to compensate, independently of issues of carrier liability, victims of aviation terrorism.

And the free market price of gold could again be allowed to determine the local currency equivalent of the existing limits.

All these proposals are capable of immediate and unilateral implementation.

Urgent action is now needed if the Warsaw Convention system is to be saved. For how long can any airline justify paying $120m for a new aircraft while curtailing arbitrarily by treaty and by law the compensation to which victims of an accident to it may otherwise have been entitled?

Bin Cheng is Emeritus Professor of Air and Space Law at the University of London and Peter Martin is a partner in London solicitors Frere Cholmeley.

APPOINTMENTS

New chief at VSEL consortium

■ Mr Noel Davies has been appointed chief executive of VSEL. He succeeds Dr Rodney Leach who has retired due to ill health. Mr Davies spent 22 years of his early career with Vickers in Barrow, and was general manager of the engineering works and a director of the shipbuilding group at the time of nationalisation in 1977. Between 1978 and 1984 he was chief executive of the engineering group and a director of Vickers. In 1984 he was appointed managing director and chief executive of the 600 Group.

■ REUTERS, the world news and information organisation, has appointed three senior executives to its board of directors. They are: Mr Peter Job, managing director of Reuters Asia, Mr Andre Villeneuve, president of Reuters America, and Mr David Ure, managing director of Reuters Europe, Middle East and Africa.

Editor-in-Chief Mr Mark Wood and financial controller and joint secretary Mr Robert Rowley have been appointed alternate directors.

Mr Wood is the first representative of the company's editorial operations to sit on the board for 70 years and will be alternate to managing director and chief executive Mr Glen Renfrew.

Mr Ernest Turnbull, chairman of AAP Information Services Pty, has resigned his directorship and Mr James Burnet, chairman of Independent Newspapers of New Zealand, has given up his post as an alternate director.

SCOTTISH AMICABLE has appointed Mr William Brown as its chairman. Mr Brown is currently deputy chairman and has been a director since 1981. He is also deputy chairman and managing director of Scottish Television.

■ CAMPBELL FOODS has appointed a new chief executive from Campbell Canada – Mr John Cassaday. Mr Cassaday, currently president and chief operating executive of Campbell Canada takes up his new role on July 10. He has been with Campbell's for five years, joining in August 1984 as vice president of sales and marketing. He became executive vice president and chief operating officer in December 1987 and president in July 1988.

■ Mr Tony Gill has been appointed as a non-executive director of the POST OFFICE BOARD. Mr Gill has been chairman and chief executive of Lucas Industries since August 1987.

■ Mr John Rippon has been appointed deputy chairman of STERLING BROKERS, a subsidiary of the Mayflower Group.

■ Following the appointment of Mr Geoffrey Harrison-Dees as general manager (marketing and sales) for SUN LIFE ASSURANCE SOCIETY, Mr Ian Sampson has been appointed managing director of Sun Life Trust Management with responsibility for the group's unit trust and offshore fund activities. Mr Simpson is a director of LAUTRO.

■ Mr Glenn L Seltzer has been elected chairman and managing director of HIMONT (UK). He was vice president, functional chemicals, for Himont Inc.

■ Mr Roger Varley has been appointed managing director of 9 SPICE, a subsidiary of the Oak Group. 9 Spice owns the franchise for the Arizona-based chain of Indian diners and has plans to develop sites throughout the M25 area. Mr Varley was sales and marketing director of F. Bender, a manufacturer of catering disposables.

■ Mr Tony Charles has joined the board of SELECTV following his appointment as managing director of its subsidiary, Witzend Productions. Mr Charles, one of the original founders of Witzend, rejoined the company in March as a consultant.

GEC AVERY, a part of the General Electric Company, has appointed Mr Jeffrey Nicholson *(above)* to the post of managing director of GEC Avery International. He was director and general manager with the Dowty Group.

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Premium Life Assurance Co Ltd
37-39, Perrymount Road, Haywards Heath 0444 458721

	Bid Price	Offer Price	+ or -	Yield Gross
American	136.0	144.0	----	-
Building Soc. Fd.	171.0	180.0	----	-
Balanced	286.0	302.0	----	-
European	180.0	190.0	----	-
GT Managed	179.0	189.0	----	-
Gartmore Mngd.	118.0	125.0	----	-
German	127.0	134.0	-1.0	-
Gilt	181.0	191.0	----	-
Global	48.0	51.0	-1.0	-
High Inc.	123.0	130.0	----	-
International Equity	199.0	210.0	----	-
Japan	242.0	255.0	+1.0	-
Managed	64.0	68.0	+1.0	-
Property	283.0	298.0	----	-
R. W. Imperial Gold	148.0	156.0	----	-
UK Equity	366.0	386.0	+1.0	-
Pension Funds				
American	152.0	160.0	----	-
Building Soc. Fd.	171.0	180.0	----	-
Balanced	221.0	233.0	----	-
European	180.0	190.0	----	-
German	113.0	119.0	----	-
Gilt	155.0	164.0	----	-
International Equity	144.0	152.0	----	-
Japan	138.0	146.0	----	-
Managed	65.0	69.0	----	-
Property	217.0	229.0	----	-
UK Equity	331.0	349.0	----	-

Prolific Life & Pensions Ltd
Stramongate, Kendall, Cumbria LA9 4BE 0539 33733
Managed Fund see Balanced Growth Managed Fund

	Bid Price	Offer Price	+ or -	Yield Gross
Life Funds				
Balanced Grwth Mngd.	599.6	631.9	+1.4	-
Adventurous Mngd.	129.2	136.2	+0.3	-
Secure Mngd.	110.0	116.0	+0.8	-
Cash Fd.	233.7	246.3	----	-
Property Fund	287.1	305.5	----	-
Equity Fund	677.4	713.9	+2.0	-
Fxd. Int. Fund	295.8	311.8	+0.5	-
International	303.6	323.0	-0.2	-
High Income	470.9	501.0	+0.4	-
Far East	414.4	440.9	-5.3	-

Prudential Holborn Pensions Ltd—Contd.

	Bid Price	Offer Price	+ or -	Yield Gross
Communications	106.8	112.5	+0.3	-
Smaller Companies	109.4	115.2	+0.5	-
International Small Cos.	132.6	139.6	+0.4	-

Prudential Pensions Limited
Holborn Bars, London EC1N 2NH 01-405 9222

	Bid Price	Offer Price	+ or -	Yield Gross
Discretionary June 21	£155.67	161.19	----	-
Equity June 21	£169.91	176.22	----	-
International June 21	£26.33	27.14	----	-
Intl Bond June 21	£12.89	13.06	----	-
Fixed Int June 21	£71.55	72.51	----	-
Index Linked June 21	£60.05	60.79	----	-
Property June 21	£109.83	116.37	----	-
Cash June 21	£20.9407	20.9407	----	-
Pre-Linked Retirement Plan				
Managed June 21	382.7	398.7	----	-
Cash June 21	196.7	204.9	----	-
Prudential Pensions Investment Account				
Pens Mngd June 28	159.9	167.8	+1.4	-
Pens UK Eq June 28	307.5	331.8	+0.6	-
Pens Intl June 28	185.3	199.4	-4.0	-
Pens Fixed June 28	164.4	173.6	+1.5	-
Pens Index Lk June 28	154.1	162.6	+0.8	-
Pens Cash June 28	128.7	135.6	+0.3	-

Regency Life Assurance Co Ltd
Regency Hse, Lanark Sq, London E14 9XS 01-538 8800

	Bid Price	Offer Price	+ or -	Yield Gross
Aggressive Ptflo Fd.	120.7	127.0	+0.7	-
Balanced Ptflo Fd.	316.5	333.1	+2.2	-
Cautious Ptflo Fd.	121.9	128.3	+0.3	-
Elite Fund	111.3	117.1	+2.0	-
European Fund	87.5	92.1	+0.4	-
Far East Fund	106.7	112.3	-2.1	-
Fixed Interest Fund	240.1	252.7	+0.4	-
International Fund	274.8	289.2	-1.7	-
Money Fund	177.0	186.3	----	-
N. American Fd.	122.9	129.3	+0.2	-
Property Fund	413.8	435.5	+1.4	-
UK Equity Fd.	388.5	408.9	+5.3	-
A.I.M. Brwin Dlghs Fd.	94.1	99.0	----	-
Swiss Select Ins.	112.4	118.3	----	-
Chart Safety First Bd.	108.5	114.2	----	-
Exec Master Fd.	101.1	106.4	----	-

Scottish Equitable Life Assce. Soc.
28 St Andrew Sq, Edinburgh 031-556 9101

Skandia Life Assurance Co Ltd—Contd.

Target Life Assurance Co Ltd—Contd.

O'Halloran & Co/Countrywide
7 Cavell Ct, North St, Peterborough PE1 1RA 0733 44830

PBR Fund Management Ltd
16 Northumberland Avenue, WC2N 5AP 01-839 6876

Rothschild Asset Management—Contd.

Barnford Brandt Guernsey Mngt. Ltd

The Bangkok Fund

Baring Int Fund Managers Guernsey Ltd

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GUERNSEY (**)

JERSEY (**)

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Windsor Trust Mngrs Ltd (1200)F
83 Kingsway, London, WC2B 6SD 01-405 8331

Wright Seligman Fund Mngrs Ltd (1000)H
11 Blomfield St, London EC2M 7AY

Weekly dealing day Tuesday

The Yorkshire Unit Tst Mngrs Ltd (1200)F

OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd

Cent. Bd. of Fin. of Church of England‡‡
2 Fore Street, London EC2Y 5AQ 01-588 1815

Charinco/Charishare‡‡ (1000)F
33 King William Street, EC4R 9AS 01-280 2800

Charities Official Invest. Fund‡‡
2 Fore Street, London EC2Y 5AQ 01-588 1815

Edinburgh Fund Mngrs PLC

INSURANCES

Albany Life Assurance Co Ltd—Contd.

Allied Dunbar Assurance Plc
Allied Dunbar Ctr, Swindon SN1 1EL 0793 514514

Continued on next page

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Premium Life Assurance Co Ltd
37-39, Perrymount Road, Haywards Heath 0444 458721

[illegible]

Prudential Holborn Pensions Ltd—Contd.

[illegible]

Prudential Pensions Limited
Holborn Bars, London EC1N 2NH 01-405 9222

[illegible]

Scottish Equitable Life Assce. Soc.
28 St Andrew Sq, Edinburgh 031-556 9101

[illegible]

Skandia Life Assurance Co Ltd—Contd.

[illegible]

Target Life Assurance Co Ltd-Contd.

[illegible]

O'Halloran & Co/Countrywide
7 Cavell Ct, North St, Peterborough PE1 1RA 0733 44830

[illegible]

PBR Fund Management Ltd
16 Northumberland Avenue, WC2N 5AP 01-839 6876

[illegible]

Roxborough Financial Management Ltd
123-125 Curtain Road, London EC2A 3BX 01-739 7117

[illegible]

Rothschild Asset Management—Contd.

[illegible]

Royal Bank of Canada Funds
RBC Offshore Fund Managers Ltd

[illegible]

Samford Brandt Guernsey Mgmt. Ltd

[illegible]

The Bangkok Fund

[illegible]

Baring Int Fund Managers Guernsey Ltd

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

OFFSHORE AND OVERSEAS

MANAGEMENT SERVICES

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

IoM (SIB RECOGNISED)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

SWITZERLAND (SIB RECOGNISED)

[illegible]

GUERNSEY (**)

[illegible]

JERSEY (**)

[illegible]

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1989 High	Low	Stock	Price £	+ or −	Yield Int.	Yield Red.
99	98	Exch 10pc 1989	99xd	—	10.09	13.27
99	98	Exch 11pc 1989	99	—	11.08	13.40
98	95¼	Treas 5pc 1986-89	98		5.10	11.41
99½	98¼	Exch 10¼pcCv '89	99		10.35	12.73
101	99	Treas 13pc 1990‡‡	100		12.96	12.36
130	124	Treas 2pc IL '90(84.6)	130		2.09	9.98
99	98	Exch 11pc 1990‡‡	99		11.11	12.66
101	99	Exch. 12¼pc 1990	99		12.52	12.66
94½	91	Treas. 3pc 1990	93		3.19	10.57
96¾	95¼	Treas 8¼pc 1987-90‡‡	96¼		8.57	12.50
98	95¼	Treas. 8pc Cv 1990 ‡‡	96		8.31	11.89
98	96	Treas. 10pcCv 1990	97¼		10.29	12.33
91¼	87	Exch 2½pc 1990	91		2.75	9.66
101	98	Treas 11¾pc 1991	99		11.81	12.09
92	89¾	Funding 5¾pc '87-91‡‡	91¾		6.29	11.25
89	86	Treas. 3pc 1991	89		3.37	9.59
100¾	95	Treas 10pc Cv '91 ‡‡	96		10.35	11.92
101	97	Exch. 11pc 1991	98		11.18	11.76
94	91	Treas. 8pc 1991	92		8.67	11.72
106	102	Treas 12¾pc 1992‡‡	103		12.38	11.37
99½	95	Treas 10pc 1992	96		10.39	11.43
94	91	Treas. 8pc 1992 ‡‡	92¼		8.70	11.42
100¾	96	Treas 10½pc Cv 1992‡‡	98		10.72	11.33
85	82¼	Treas. 3pc 1992	83		3.60	9.59
105	101¼	Exch. 12¼pc '92	102		11.96	11.31
109¾	104	Exch 13½pc 1992	106		12.75	11.24
94	90	Treas 8¼pc 1993	91		9.01	11.12
100	95¼	Treas 10pc 1993‡‡	97		10.30	10.94
108¾	103	Treas 12½pc 1993‡‡	105		11.93	11.01
87¾	84¾	Funding 6pc 1993‡‡	85½		7.03	10.37
113¾	108¼	Treas 13¾pc 1993‡‡	109¼		12.55	10.93
94	89¾	Treas. 8½pc 1994	91		9.27	10.84
117	112	Treas 14½pc 1994‡‡	114		12.74	10.65
113	107	Exch 13½pc 1994	109		12.36	10.96
100¾	95	Treas. 10pc Ln. 1994‡‡	97		10.29	10.74

Five to Fifteen Years

1989 High	Low	Stock	Price £	+ or −	Yield Int.	Yield Red.
110¼	104	Exch. 12½pc 1994	106		11.78	10.90
96	91¾	Treas 9pc 1994‡‡	93		9.67	10.71
108	102	Treas 12pc 1995	104¼		11.48	10.89
79¾	74½	Exch 3pc Gas 90-95	75¼		4.00	8.51
101	95¼	Exch. 10¼pc 1995	97		10.49	10.78
113	107¼	Treas 12¾pc 1995‡‡	109		11.66	10.68
119	112¾	Treas. 14pc '96	114		12.23	10.86
97½	91	Treas. 9pc 1992-96‡‡	93		9.67	10.44
126	119	Treas 15¼pc 1996‡‡	121		12.58	10.77
117	110	Exch 13¼pc 1996‡‡	112¼		11.84	10.72
101	94	Conversion 10pc 1996	96¼		10.35	10.66
118¾	110¾	Treas 13¼pc 1997‡‡	113		11.73	10.70
104	97¼	Exch 10½pc 1997	99¼		10.57	10.63
95	88¾	Treas 8¾pc 1997‡‡	91		9.62	10.40
128¾	120¼	Exch 15pc 1997	122¾		12.25	10.82
100	93	Exch. 9¾pc 1998	95		10.17	10.49
84¾	78¾	Treas 6¾pc 1995-98‡‡	80		8.34	10.04
134	125	Treas. 15½pc '98‡‡	127		12.11	10.64
113	105¼	Exch. 12pc 1998	108¼		11.09	10.58
100¾	93	Treas 9½pc 1999‡‡	95		9.918	10.19
115	107½	Exch. 12¼pc 1999	110		11.14	10.56
105¼	97¾	Treas. 10½pc 1999	100		10.48	10.45
104	96½	Conversion 10¼pc 1999	98¾		10.37	10.42
94	86¾	Treas. 8½pc Ln 2000‡‡	89		9.51	10.17
97	90	Conversion 9pc 2000‡‡	92¼		9.74	10.18
122	113	Treas. 13pc 2000	115		11.23	10.55
105	95¾	Treas 10pc 2001	98		10.18	10.38
124	115½	Treas. 14pc '98-01	118		11.85	10.76
102	94	Conversion 9¾pc 2001	97¼		10.06	10.20
113	105¼	Exch. 12pc '99-02	108		11.10	10.62
104	96	Conversion 10pc 2002	99		10.09	10.12
102	94	Treas 9¾pc 2002	97¼		10.01	10.11
97	89	Exch. 9pc 2002	92		9.74	10.02
126	117	Treas. 13¾pc 2000-03	120½		11.44	10.60
105	97½	Treas 10pc 2003	100¼		10.00	9.99
113	104	Treas. 11½pc 2001-04	107¼		10.70	10.38
106	97¼	Treas. 10pc 2004	100		9.93	9.90

BRITISH FUNDS—Contd

Over Fifteen Years

Undated

Index-Linked

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

ISLE OF MAN (**)

LUXEMBOURG (**)

OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

Henderson Global Strategy Mngmt SA

Henderson Global Strategy Fund

	Bid Price	Offer Price	+ or −	Yield Gross
North Am Portfolio	£0.92	0.97	-0.01	—
European Portfolio	£1.32	1.39	-0.01	—
UK Growth Portfolio	£0.99	1.04		—
Japan Portfolio	£1.29	1.36	-0.03	—
Pacific Portfolio	£1.16	1.22	-0.02	—
Managed Intl Portfolio	£0.99	1.04		—
Dollar Cash Portfolio	$0.9809	0.9809	+0.0001	—
Sterling Cash Portfolio	£1.1127	1.1127	+0.0001	—

Hill Samuel Investment Services Intl (x)

NM Income & Grth Fd

NM Financial Mngt Intl Ltd

National Mutual Insce Co

The New Zealand Fund

Money Market Bank Accounts

Money Market Trust Funds

LONDON SHARE SERVICE

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AMERICANS—Contd

1989 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
597½	270p	Cullinet Sftwr 1c	584p	+9	–	–	–
27½	21½	Dana Corp. $1	26½	–⅛	$1.60	–	3.8
12	854p	Data General	11¼	–⅛	–	–	–
39	28½	Dun & Bradstreet $1	37¼	–⅛	$2.00	–	3.4
41¼	30½	Eaton Corpn. 50c	39½	–¼	h$2.00	–	3.2
11¾	8¾	Echlin Inc.	11½	–⅛	70c	–	4.0
20½	16⅞	FPL Group 1c	20	+⅛	$2.28	–	7.2
32⅞	27⅛	Ford Motor $1	31½	–⅛	$3.00	–	6.1
45¾	30½	GATX 62½c.	44¼	–⅛	$2.00	–	2.9
35¼	24¼	Gen. Elect. 63c.	34½	–⅜	$1.64	–	3.0
562½	424p	General Host Corp $1	520p	–7	30c	–	3.7
39½	18¼	Gillette $1	26¾	+¼	96c	–	2.3
997p	616p	Gt Am First Svgs Bk $1	816p	–6	60c	–	4.7
23⅝	16⅛	Greyhound $1½	21⅛	–⅛	$1.32	–	3.9
14¼	847p	Hasbro Inc 50c	13⅞	–⅛	16c	–	0.7
49½	32¼	Honeywell $1½	48⅜	–⅛	$2.10	–	2.7
21¼	15¼	Houston Inds	20¼	.....	$2.96	–	9.0
74¾	63½	IBM Corpn $1¼	73¼	+1¼	$4.84	–	4.2
55p	45p	Icahn Storage/R Sn 1c	55p	+5	–	–	–
28¼	18¾	Ingersoll-Rand $2	28	..	$1.20	–	2.7
33	22⅞	Lockheed Crpn. $1	30⅝	–⅛	$1.60	–	3.3
22½	15⅛	Lone Star Inds $1	20¼	–⅛	$1.90	–	5.9
25	17½	Louisiana Land 15c	24½	+⅛	$1.00	–	2.6
17	11½	Lowe's 50c	16½	–⅛	48c	–	1.8
25	15⅛	Manuf. Hanover $1	24½	+⅛	$3.28	–	8.5
20½	13⅛	Merrill Lynch $1	19½	+⅛	$1.00	–	3.3
2253p	1910p	Moles Inc	2102p	+87	3.2c	–	–
27⅝	18¾	Morgan (JP) $2½	25⅛	+⅛	$1.66	–	4.1
54½	36½	NYNEX $1	52½	–⅛	$4.36	–	5.3
24½	18¼	PHH Corp	23¼	–⅛	$1.12	–	3.0
259p	225p	Pacific Agr	242p	...	–	–	–
27¼	19	Pacificorp $3¼	26½	–⅛	$2.76	–	6.4
27	16⅝	Pacific Telesis 10c	26½	–⅛	$1.88	–	4.5

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES—Contd

ELECTRICALS

ENGINEERING

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.)—Contd

INDUSTRIALS (Miscel.)—Contd.

INSURANCES

LONDON SHARE SERVICE

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INSURANCES—Contd

[illegible]

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING, ADVERTISING — Contd

[illegible]

PROPERTY

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND—Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

MINES—Contd

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

NOTES

[illegible] ... dividend and yield. E Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p ... ♥	98	......
Craig & Rose £1 ... ♥	728	......
Finlay Pkg. 5p ... ♥	88	......
Holt (Jos) 25p ... ♥	1343	+13

Arnotts	480	−25
Carrol (P.J.) ... ♥	145xd	......
Hall (R. & H.)	165	......
Helton Hldgs ... ♥	71	......
Irish Ropes	198	......
United Drug	136	......

IRISH

Cap. 8½% Ln. 1991	£98¾	+¾
9pc Cap Ln. 1996	£99½	+1
Fin. 13% 97/02	£128	+1

TRADITIONAL OPTIONS
3-month call rates

Industrials	p
Allied-Lyons	38
Amstrad	11
BAT	45
BOC Grp	42
BSR	6½
BTR	32
Barclays	42
Beecham	58
Blue Circle	40
Boots	25
Bowaters	44
Brit. Aerospace	52
British Steel	7½
Brit. Telecom	21
Burton Ord	18
Cadburys	31
Charter Cons	48
Comm Union	32
Courtaulds	30
FKI Babcock	14
FNFC	22
Gen Accident	85
GEC	20
Glaxo	110
Grand Met	48
GUS 'A'	90
Guardian	18
GKN	34
Hanson	16
Hawker Sidd	40
ICI	100
Jaguar	28
Ladbroke	40
Legal & Gen	26
Lex Service	33
Lloyds Bank	29
Lucas Inds	58
Marks & Spencer	15
Midland Bk	30
Morgan Grenfell	24
Nat West Bk	25
P & O Dfd	55
Plessey	22
Polly Peck	26
Racal Elect	40
RHM	42
Rank Org Ord	80
Reed Intnl	34
STC	32
Sears	10
TI	38
TSB	10
Tesco	14
Thorn EMI	58
Trust Houses	24
T&N	18
Unilever	46
Vickers	18
Wellcome	42

Property	
Brit Land	32
Land Securities	52
MEPC	50
Rendsworth	28

Oils	
Brit Petroleum	21
Burmah Oil	50
Calor	35
Charterhall	2½
Premier	7
Shell	32
Ultramar	26

Mines	
Cons Gold	180
Lonrho	30
RTZ	40

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CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar and pound below best

THE DOLLAR finished below its best levels, but higher on the day, while sterling fell back on profit taking after a firm tone in early London trading.

Institutional buying pushed the dollar higher in Tokyo, with dealers suggesting that last week's fall below Y140 had led to heavy buying and had shown the level where there was strong underlying support for the US currency.

Japanese institutions with large cash reserves have been regarded as potential buyers of dollar assets for some time. Last week's decline of the US currency provided an attractive buying opportunity and yesterday's intervention by the Bank of Japan did not appear to dampen enthusiasm for the dollar.

The Bank of Japan probably sold over $1bn yesterday, against a nervous background in Tokyo involving renewed political problems. Mr Sosuke Uno, Japanese Prime Minister, was forced to issue a denial that he had offered to resign. Mr Uno was reported to have told his colleagues in the ruling Liberal Democratic Party "I have to step down or I will put the party into more trouble."

News reports added that Mr Uno - who is the subject of a sex allegation scandal in the Japanese press - was dissuaded from resigning because after the Recruit Cosmos bribery affair, involving senior members of the LDP, it would cause political chaos in Japan.

Japan's political problems and institutional demand for the dollar pushed the US currency up in the Far East and led to a firm opening in Europe.

Trading was relatively quiet however and fear of intervention by the US Federal Reserve, coupled with weaker than expected economic data, brought the dollar down from the day's peaks. May US leading indicators fell a larger than forecast 1.2 per cent, after rising 0.6 per cent in April.

After finishing at Y143.55 in Tokyo the dollar closed in London at Y142.75 compared with Y141.10 on Tuesday. In terms of other currencies it rose to DM1.9645 from DM1.9560; to SFr1.6890 from SFr16840; and to FFr6.6650 from FFr 6.6325. On Bank of England figures the dollar's index rose to 71.8 from, 71.3.

Sterling rose to a peak of DM3.0750, as the market unwound short sterling positions. Pressure against the pound eased after Tuesday's publication of better than expected May UK trade figures. As the danger of a further fall in the value of sterling receded the cost of carrying short sterling positions - at present higher UK interest rates - became unacceptable and this led to short covering.

The pound gained ground, but dealers said it must reach a level of around DM3.1075 before a higher trading range is established. There was little hope of that yesterday and therefore the market took profits, pushing sterling down to DM3.0575 from DM3.0625.

£ IN NEW YORK

June.28	Latest	Previous Close
£ Spot	1.5580-1.5590	1.5675-1.5685
1 month	0.55-0.54pm	0.58-0.55pm
3 months	1.88-1.85pm	1.70-1.65pm
12 months	7.10-7.00pm	6.65-6.50pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	June.28	Previous
8.30 am	90.9	90.1
9.00 am	91.0	90.2
10.00 am	91.2	90.1
11.00 am	91.2	90.1
Noon	91.3	90.4
1.00 pm	91.1	90.5
2.00 pm	91.1	90.9
3.00 pm	91.0	90.8
4.00 pm	90.8	90.7

CURRENCY RATES

June.28	Bank rate %	Special* Drawing Rights	European † Currency Unit
Sterling #	-	1.24364	1.48171
U.S Dollar	7	1.25036	1.05365
Canadian $	12.39	1.49280	1.25858
Austrian Sch.	5	17.2175	14.5930
Belgian Franc	7.75	51.1835	43.3682
Danish Krone	7½	9.51962	8.06515
Deutsche Mark	4.50	2.44683	2.07210
Neth. Guilder	5.50	2.75579	2.33531
French Franc	9½	8.29739	7.03258
Italian Lira	13½	N/A	1498.29

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu June.28	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.3682	+2.14	+0.92	±1.5344
Danish Krone	7.85212	8.06515	+2.71	+1.49	±1.5404
German D-Mark	2.05853	2.07210	+0.66	-0.56	±1.0981
French Franc	6.90403	7.03258	+1.86	+0.64	±1.3674
Dutch Guilder	2.31943	2.33531	+0.68	-0.54	±1.5012
Irish Punt	0.768411	0.777486	+1.18	-0.04	±1.6684
Italian Lira	1483.58	1498.29	+0.99	+0.37	±4.0752
Spanish Peseta	133.804	131.759	-1.53	N/A	N/A

Changes are for Ecu, therefore positive change denotes a weak currency
Adjustment calculated by Financial Times.

POUND SPOT- FORWARD AGAINST THE POUND

June.28	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.5520 - 1.5645	1.5555 - 1.5565	0.57-0.54cpm	4.28	1.72-1.68pm	4.37
Canada	1.8585 - 1.8710	1.8610 - 1.8620	0.27-0.16cpm	1.39	0.82-0.67pm	1.60
Netherlands	3.43¼ - 3.47	3.43¼ - 3.44¼	2-1⅞cpm	6.54	5½-5¼pm	6.25
Belgium	63.75 - 64.40	63.75 - 63.85	30-27cpm	5.36	84-80pm	5.14
Denmark	11.89 - 11.97½	11.89 - 11.90	4⅞-4⅜orepm	4.67	13½-12¼pm	4.41
Ireland	1.1415 - 1.1535	1.1450 - 1.1460	0.55-0.50pm	5.50	1.40-1.30pm	4.71
W. Germany	3.05 - 3.07½	3.05½ - 3.06	1⅞-1⅝pfpm	6.87	5¼-4⅞pm	6.54
Portugal	254.55 - 257.75	254.70 - 255.70	2-51cdis	-1.25	72-169dis	-1.88
Spain	193.65 - 195.80	193.85 - 194.15	8-10cdis	-0.56	40-21pm	0.63
Italy	2205½ - 2224	2209½ - 2210½	4-2lirepm	1.63	10-8pm	1.63
Norway	11.10½ - 11.19½	11.11¼ - 11.12¼	3¼-2⅞orepm	3.30	6⅝-6¼pm	2.29
France	10.35½ - 10.44¼	10.36½ - 10.37½	4¼-3⅞cpm	4.63	11¼-11⅛pm	4.46
Sweden	10.34¼ - 10.41¼	10.34¼ - 10.35¼	2⅛-1⅞orepm	2.32	6-5½pm	2.22
Japan	221½ - 223½	221½ - 222½	1⅝-1½ypm	8.45	4⅝-4½pm	8.22
Austria	22.46 - 22.66	21.46 - 21.49	12¼-11¼gropm	6.53	34¼-32½pm	6.25
Switzerland	2.62 - 2.64½	2.62¼ - 2.63¼	1½-1⅜cpm	6.57	4¼-4pm	6.28
ECU	1.4550 - 1.4825	1.4550 - 1.4560	0.58-0.55cpm	4.66	1.16-1.12pm	3.13

Commercial rates towards the end of London trading. Belgian rate is convertible francs. Financial franc 64.00-64.10. Six-month forward dollar 3.53-3.48cpm 12 months 6.70-6.60pm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

June.28	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.5520 - 1.5645	1.5555 - 1.5565	0.57-0.54cpm	4.28	1.72-1.68pm	4.37
Ireland†	1.3525 - 1.3605	1.3580 - 1.3590	0.10-0.15cdis	-1.11	0.10-0.20dis	-0.44
Canada	1.1925 - 1.1970	1.1960 - 1.1970	0.27-0.31cdis	-2.91	0.81-0.87dis	-2.81
Netherlands	2.2050 - 2.2235	2.2125 - 2.2135	0.44-0.42cpm	2.33	1.14-1.10pm	2.02
Belgium	40.90 - 41.35	40.95 - 41.05	5.00-3.00cpm	1.17	11.00-7.00pm	0.88
Denmark	7.63¼ - 7.68½	7.64¼ - 7.64¾	0.45-0.20orepm	0.51	0.50-0.10pm	0.16
W. Germany	1.9555 - 1.9750	1.9640 - 1.9650	0.44-0.42pfpm	2.63	1.15-1.11pm	2.30
Portugal	163.60 - 163.95	163.60 - 163.70	60-90cdis	-5.48	225-285dis	-6.22
Spain	124.60 - 125.15	124.70 - 124.80	45-55cdis	-4.81	128-138dis	4.26
Italy	1415½ - 1423¼	1420 - 1420½	3.30-3.80liredis	-3.00	9.00-12.00dis	-2.92
Norway	7.12¾ - 7.17½	7.14½ - 7.15	0.43-0.68oredis	-0.60	2.10-2.40dis	-1.26

FINANCIAL FUTURES

Prices pause for breath

THE FIRMER trend in short sterling prices seen on short covering after better than expected UK trade data, tended to run out of steam yesterday. While the prospect of a further rise in bank base rates appears to have receded for the time being, there appears to be similar reasoning to suggest that rates are unlikely to fall, at least until close to the year end.

While trade figures may have introduced a note of cautious optimism, investors are aware that Government emphasis remains on the reduction of inflation, and so far, there is little to cheer on this front.

Against this background, short sterling deposits for September delivery finished at 86.00, discounting a base rate of 14 per cent, and down from 86.12 at the opening and 86.10 on Tuesday. Long gilt futures retreated from the day's highs, but still managed to show a marginal improvement on the day, finishing at 94-14 for September delivery against 94-13 on Tuesday.

West German Government bond futures finished on a weaker note ahead of today's meeting of the Bundesbank central council. Some traders remain wary on the outside possibility of a rise in key lending rates. The September bond price closed at 94.80, down from 94.87 on Tuesday.

MONEY MARKETS

Steady, but cautious

UK INTEREST rates reversed a softer trend established during the morning to finish little changed from Tuesday's closing levels. Rates were marked down at the start as sterling continued to benefit from better than expected May trade data. However, the pound's weaker tone towards the close lifted interbank rates from the day's lows, and the three-month rate finished at 14-13¾ per cent, unchanged from the close on Tuesday.

While market sentiment is probably less bearish now after the trade figures, the trend in interest rates is regarded as

UK clearing bank base lending rate 14 per cent from May 24

being less than clear. This was reflected in the yield curve on interbank money which is now flat from three months out to one year.

The Bank of England forecast a shortage of around £300m. Factors affecting the market included bills maturing in official hands and a take up of Treasury bills, together with repayment of any late assistance draining £118m. Exchequer transactions drained a further £25m while banks' balances were brought forward £40m below target. In addition, there was a rise in the note circulation of £120m.

The forecast was revised to a shortage of around £250m but there was no assistance by the Bank during the morning. A further revision took the forecast to a shortage of around £200m, and the Bank bought £50m of eligible bank bills in band 1 at 13¾ per cent. Late help came to £80m, making a total of £130m.

In Frankfurt, the Bundesbank announced that it will not be holding a news conference after today's meeting of the central council. Opinion over the possibility of an early rise in West German interest rates remains fairly evenly divided.

The authorities are clearly concerned about money supply growth and the inflationary implications of a weak D-Mark against the dollar. However, it may still be too early to see what effect recent increases in lending rates have had on the economy. On this basis, the Bundesbank is not expected to be pushed into an early rise in rates.

In Brussels, the Belgian central bank added liquidity to the money market through 14-day repurchase agreements, but left its lending rates unchanged. A total of BFr16.6bn was allocated against maturities of BFr13.5bn; funds will enter the market tomorrow.

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

EURO-CURRENCY INTEREST RATES

EXCHANGE CROSS RATES

CURRENCY MOVEMENTS

OTHER CURRENCIES

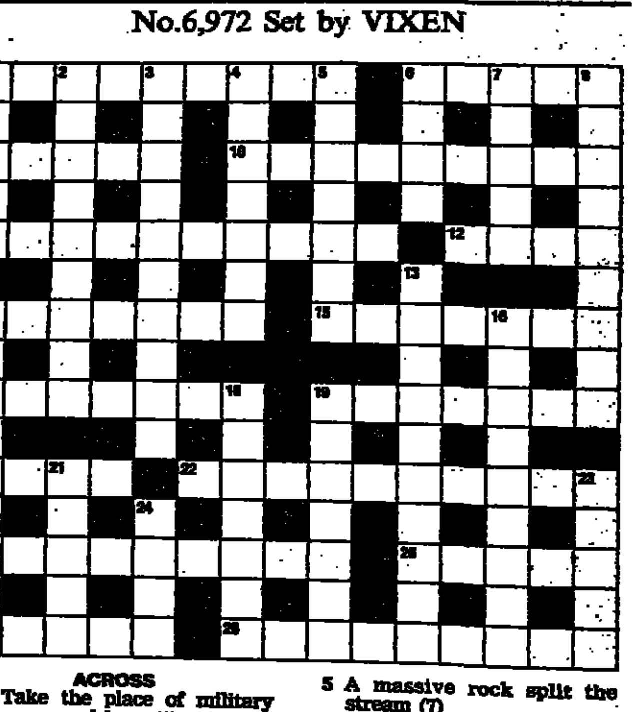
EUROPEAN OPTIONS EXCHANGE

BASE LENDING RATES

JOTTER PAD

CROSSWORD

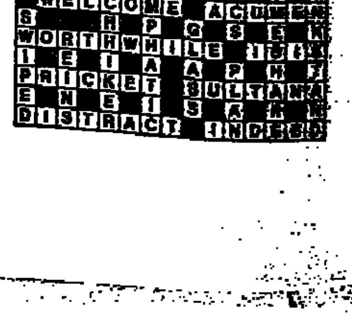
No.6,972 Set by VIXEN



ACROSS
1 Take the place of military personnel here (9)
6 Transport one or two (5)
9 A friend will stand by a scholar in a holiday resort (5)
10 Preacher's address quite some time after parking offence (9)
11 Found underworld guy really bright (10)
12 In future stay calm (4)
14 Carries out an operation on damaged pastern (7)
15 A suggestion to involve the queen causing a row (7)
17 Particular about coppers entering school (7)
19 Alternatives when there's nothing in post for attention (7)
20 Poles having an accountant in view (4)
22 It's the same old story – but note the appeal! (10)
25 Out of order, and so tense (9)
26 Man after personality and a particular means of expression (5)
27 Cereal – a very small amount (5)
28 Detain suspect (9)

DOWN
1 Russian capital paid out with quick result (5)
2 Vertical structures built to wear well in jetties (9)
3 Disappeared, having proved a tea-break necessary (10)
4 Get out of the closet – fast (7)
5 A massive rock split the stream (7)
6 Report an improvement in the country's trade-figures (4)
7 A step to be effected without delay (5)
8 The foreign princess would be a choosy woman! (9)
13 Tried if car-smash causes manslaughter (10)
14 An article about ill-considered punishment (9)
16 An Australian, one with spirit, interrupting a bore (9)
18 She'll have to adjust her seat (7)
19 Do better than clear a little work (7)
21 Greek character involved in a gradual phasing out (5)
23 Called up a fellow journalist (5)
24 Flying buttresses his speciality? (4)

Solution to Puzzle No.6,971



WORLD STOCK MARKETS

AUSTRIA

June 28	Sch	+ or −
Austrian Airlines	2,100	−50
Creditanstalt	2,700	−10
Goesser	3,560	−150
Interunfall	18,500	−300
Jungbunzlauer	15,450	−80
Laenderbank	440	−5
Perlmooser	1,385	−5
Reininghaus	1,450	−20
Semperit	238	+8
Steyr-Daimler	110	—
Veitscher Mag	855	—
Verbund	189	+2

BELGIUM/LUXEMBOURG

June 28	Frs.	+ or −
Arbed	6,270	−10
B.B.L.	3,480	—
Bank Intl. a Lux	15,200	—
Banque Gen. Du Lux	14,500	—
Banque Nat. Belg	37,000	−25
Bekaert B	14,500	−250
Ciment CBR	6,800	−100
Cobepa	5,890	−20
Do. AFV 1	5,890	+40
Do. AFV 2	5,870	+30
Cockerill	374	+12
Colruyt	15,900	+200
Delhaize	5,800	+180
EBES	4,580	+10
Do. AFV 1	4,530	−10
Do. AFV 2	4,550	−10
Fabrique Nat	802	−8
GIB Group	1,368	—
Do. AFV	1,368	−4
GBL(BruxL)	4,950	+10
Do. AFV 1	4,510	−20
Do. AFV 2	4,510	−15
Gechem	1,052	−48
Do. AFV	1,056	−22
Generale Bank	6,090	+20
Do. AFV 1	6,160	+20
Do. AFV 2	6,390	+140
Gevaert	8,400	+80
Hoboken	17,325	−75
Do. AFV	17,200	—
Intercom	3,615	−5
Do. AFV 1	3,590	−10

FRANCE (continued)

June 28	Frs.	+ or −
Alsthom	610	+9
Arjomari-Prioux	2,550	−20
Auxiliaire d'Ent.	1,060	+5
BIC	742	+1
BSN	678	−2
Bancaire Cie	533	−3
BNP (Cert.Inv.)	405	−2
Beghin-Say	682	−11
Do. Certs	449	−2
Bongrain	3,090	−29
Bouygues	654	−11
CMB Packaging	679	−20
Carrefour	3,143	−7
Casino	211	−0
Cetelem	623	−3
Chargeurs	1,214	−27
Ciments Fr.	1,563	+17
Club Mediterranee	664	−6
Cofimeg	359	+8
Cogifi	360	+1
CGE	440	−7
Coparex	312	−2
Cred Foncier Fr	849	+6
Credit National	1,072	−14
Damart	2,970	−19
Docks de France	3,600	−10
Dollfus-Mieg	540	−10
Dumez S.A.	994	+4
Eaux (Cie Gen)	1,952	−41
Ecco	2,269	−5
Electrofin're	1,012	+2
Elf-Aquitaine	545	+7
Do. Certs	444	+3
Essilo-Bertrand	1,511	—
Essilor	3,330	+25
Eternit (Fin.)	2,700	−30
Eurafrance	1,610	+5
Eurocom	1,560	+3
Euromarche	2,749	−30
Exor	1,311	+8
Finextel	203	−3
Fonciere Lyons	489	+2
Fromageries	1,910	+16
GTM-Entrepose	1,475	−1
Gaumont (Soc N)	552	−13
Gen Geophysique	780	−10
Gen.Occidentale	897	−3
Hachette	400	−10

GERMANY (continued) · ITALY (continued) · NETHERLANDS · SWEDEN · SWITZERLAND · NORWAY · SPAIN · SOUTH AFRICA · JAPAN · AUSTRALIA · HONG KONG · SINGAPORE

CANADA

TORONTO

2pm prices June 28

INDICES

NEW YORK DOW JONES

CANADA

NEW YORK ACTIVE STOCKS

TOKYO - Most Active Stocks

Wednesday June 28 1989

WORLD M.S. Capital Intl. (1/1/70)	(u)	508.6	507.5	510.4	519.0 (17/2)	487.6 (13/6)

§ Subject to official recalculation.
† Corrected figure.

Base values of all indices are 100 except Brussels SE and DAX – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia. All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

3pm prices June 28

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A–A–A –								
32⅛	21¾	AAR	.44	1.5	20	282	30½	29¾	29¾	– ⅜
10⅛	8⅞	ACM n	1.01	11.		65	9⅜	9¼	9¼	
11⅞	10⅛	ACMIn	1.26a	11.		258	11⅛	11	11⅛	+ ⅛
10⅛	9½	ACM M	n1.01	11.		122	9½	9⅜	9⅜	– ⅛
11⅜	10	ACM Se	1.26	11.		399	11⅛	11	11⅛	+ ⅛
9⅞	8¾	ACMSp	1.01	11.		250	9¼	9⅛	9¼	+ ⅛
17¼	10⅞	AL Lab	.12	.7	18	6	16¾	16¾	16¾	+ ⅛
4⅜	3¼	AMCA	.12e	3.0	27	10	4	3⅞	4	
6⅛	4⅛	AM Intl				484	5⅜	5⅛	5⅛	
23⅛	19⅜	AM In pf	2	9.4		18	21½	21¼	21¼	– ⅜
66½	40⅞	AMR			6	1619	65⅝	64⅜	64⅜	–1⅛
27	25	ANR pf	2.67	10.		62	25¾	25⅝	25¾	
24¾	23⅛	ANR pf	2.12	8.5		1	u24⅞	24⅞	24⅞	+ ⅜
8⅞	3⅜	ARX				528	3⅞	3⅜	3⅜	– ⅛
43¼	36¼	ASA	3a	7.2		149	41⅜	41⅜	41½	– ⅛
22⅜	15¼	AVX	.24	1.2	9	280	20⅜	19⅜	19⅞	– ⅜
61⅛	43½	AbtLab	1.40	2.4	17	1470	59⅞	59	59	–1
19	15⅜	Abitibi g	1			4	16	16	16	
13	7½	AcmeC	.40	3.4		21	12⅛	11⅞	11⅞	– ⅛
8	5⅞	AcmeE	.32	4.1	18	13	7⅞	7¾	7¾	– ⅛
34¾	20¼	Acuen			28	30	33⅛	32⅞	32⅞	– ⅜
16⅞	14¼	AdaEx	1.82e	12.		60	15⅝	15⅜	15⅜	
16⅞	7¼	AMD				5348	10	9¼	9⅜	– ⅜
43½	28¼	AMD pf	3	9.1		1	33⅛	33⅛	33⅛	– ⅜
11	6½	Adobe				2054	u11¾	10⅝	11⅝	+ ½
18¾	16½	Adob pf	1.84	10.		31	u18½	18¼	18⅜	+ ¼
9⅛	6⅞	Advest	.12	1.7	16	20	6⅞	6⅞	6⅞	
58⅜	43½	AetnLf	2.76	4.9	9	1779	56⅜	55⅞	55⅞	– ⅜
14	12⅞	AflPb				1748	13	12⅞	12⅞	– ⅛
23⅜	14⅝	Ahmans	.88	4.0	10	1639	22⅛	21¼	21⅞	– ⅜
4⅝	2¼	Alleen				48	2⅜	2½	2⅜	

Continued on Page 39

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
23½	18⅝	Rockwl	.78	3.5	7	1052	22½	22⅛	22⅛	- ⅜
9⅝	4⅞	RocRen				23	5⅛	5⅛	5⅛	- ⅛
37½	30⅛	RoHaas	1.12	3.3	10	289	34½	33⅝	33⅝	- ⅞
37⅞	25⅝	Rohr			15	343	29⅜	28⅝	28⅝	- ½
16⅜	9	RollnE	s .08		8	30	1214	10⅞	10½	10⅝ - ⅛
20⅞	15⅛	Rollins	.54	2.6	20	110	20⅝	20⅝	20⅝	+ ⅛
48⅛	35½	Rorer	.80	2.1	19	683	37⅞	37⅛	37⅛	
8⅞	4½	Rowan				4141	u 8⅞	8⅛	8½	- ⅛
66½	52⅝	RoylD	n3.32e	5.2	9	3423	64⅛	63⅛	63⅛	- ⅛
16	6⅞	Roylnt	.20e	1.4	14	264	14⅜	14⅛	14⅜	- ⅛
9⅞	7⅛	Royce	.51e	5.7		97	9⅞	9⅛	9⅛	
32	21⅛	Rubmd	.44	1.4	22	444	31	30⅞	30⅞	- ⅛
23½	16⅛	RussBr	.40	2.1	16	17	18⅞	18⅝	18⅝	
14½	12⅛	RussTg	.60	4.8	23	105	12½	12½	12½	
23⅛	14⅝	Russell	.28	1.2	10	134	23	22⅝	22⅝	- ⅛
28⅛	22⅝	Ryder	.60	2.3	12	2081	26⅝	26⅛	26⅛	- ⅛
28½	22	Rykoff s	.60	2.1	16	497	u 28⅞	28	28⅛	
23⅞	14⅛	Ryland	.60	2.8	7	268	21½	21⅛	21⅛	- ⅜
13½	8⅜	Rymer				16	11⅛	11	11	- ⅛
10⅛	7⅞	Rymr pf	1.17	12.		9	9⅞	9⅛	9⅛	- ⅛
		– S – S – S –								
36⅛	30⅞	SCEcp	2.56	7.3	12	x2805	35⅜	35	35⅛	- ⅛
9½	6½	SCOR U	.20e	2.3	6	27	8⅞	8⅞	8⅞	- ⅛
9⅝	7½	SL Ind	.16	1.9		6	8⅛	8⅛	8⅛	+ ⅛
60⅛	37	SPSTec	1.20	2.2	23	18	55	55	55	
34	22⅞	SPX Cp	1	3.4	8	24	29⅞	29⅛	29⅛	- ⅛
22½	13⅛	Saatchi	1.25e	8.7	6	246	14⅜	14⅜	14⅜	
13⅝	11⅛	SabnR	1.32e	10.	10	1	13	13	13	- ⅛
19	14½	SfgdSc			13	13	16½	16½	16½	- ⅛
33⅛	23⅛	SafKln	.36	1.2	23	811	31	30⅞	30⅞	- 1
		– X – Y – Z –								
68	51⅛	Xerox	3	4.7	18	7512	63⅞	62⅞	63⅞	+ ⅛
48⅛	44⅛	Xerox pf				5	44	d44	44	- 1
44⅛	31	XTRA	.72	2.3	13	150	32	d30⅛	31	- 1⅛
33	25	XTRA pf	1.94	7.7		218	26	25⅛	25⅛	- 1⅛
3⅛	2	Zapata				109	2⅞	2⅛	2⅛	- ⅛
15½	10½	Zemex	.40	3.3	133	1	12	12	12	
20⅛	15½	ZenithE			953	2349	19½	19⅛	19⅛	- ⅛
10⅛	8⅞	Zeninc	1.26	13.		101	9½	9⅜	9⅜	- ½
2⅛	1	vjZenLb				670	1⅛	1⅛	1⅛	
21½	15	ZenNd	.84	4.4	9	182	19⅜	19⅛	19⅛	- ⅛
22	14⅛	Zero	.44	2.1	17	192	21⅝	21⅛	21⅜	- ⅛
38⅞	22	Zurmin	.88	1.8	19	233	37⅞	37	37⅛	- ⅝
11⅞	10	Zweig	1.05e	9.5		400	11⅜	11½	11½	- ⅛
10⅛	8⅛	Zweig n	.38	12.		655	9⅝	9½	9½	- ⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full

AMEX COMPOSITE PRICES

3pm prices June 28

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng

OVER-THE-COUNTER

Nasdaq national market, 3pm prices June 28

Stock	Div.	P/E	Sales 100s	High	Low	Last	Chng
RigsNt	1.25	10	19	27	26½	26½	- ½
RoadSv	1.10	15	114	31½	31	31½	+ ¼
RbtHll		16	45	18¼	17¾	18¼	- ½
RochCS	.44	12	226	16⅞	16⅝	16⅞	+ ⅛
RckBcp	.24e	15	35	16¼	15⅞	16	- ⅛
RsvlFn	.80	6	173	14½	14⅛	14⅛	+ ⅛
RoseB	.16a	10	55	7⅛	7⅛	7⅛	- ⅛
RossSr		16	1236	17⅝	17½	17⅝	- ⅛
Rouse	.56	122	200	28½	28	28	- ¼
RyanF		18	1846	7⅛	7	7	- ⅛
– S – S –							
WisrO	.40	51	141	16⅛	15⅝	16⅛	- ⅛
Wolohn	.28	9	286	17⅞	17⅛	17⅛	- ⅛
WrlvEx h			423	6⅛	6⅛	6⅛	
Worthg	.48	14	650	22½	22	22⅛	
Wyman	.80	74	686	20	19⅝	20	
– X – Y – Z –							
XL Dta s		18	325	22½	21⅞	22	- ½
XOMA			2642	17⅝	16⅛	17⅛	- ⅝
Xicor		8	1922	6⅞	6⅛	6½	- ⅛
YelowF	.70	10	769	27½	25⅞	25⅞	- ⅞
ZionUt	1.44		z19	26	25	25	
Zycad			392	3	2⅞	2⅞	

AMERICA

Dow falls in thin trade after bonds setback

Wall Street

A SLOW morning on Wall Street saw stocks fall sharply in desultory trading as a weak debt market triggered profit-taking in equities, *writes Karen Zagor in New York.*

At 2 pm the Dow Jones Industrial Average was down 30.16 points at 2,496.21. Trading was slow, and declining issues led those advancing by a ratio of about two to one.

At 1 pm the Standard & Poor's 500 index was down by 1.93 of a point. However, the American Exchange Composite rose 0.83 of a point.

The stock market weakened more sharply than the debt market, where the Treasury's benchmark 30-year bond slipped ⅛ point to 108⅞, yielding 8.11 per cent in midday trading. The Fed did $1.5bn customer repurchase agreements when Fed fund were at 9⅝ per cent.

The dollar did not give up any ground yesterday morning in spite of a move by the Federal Reserve to bolster the yen by selling dollars. At midday the dollar was Y142.95 and DM1.9645, against Y141.75 and DM1.9560 late on Tuesday in New York.

The yen has been undermined by signs of political uncertainty in Japan.

Mr Satoshi Sumita, governor of the Bank of Japan, said the US currency was now sharply higher than the target Y133 set by the Group of Seven leading monetary nations. "We will take a determined stance in coping with (the high dollar) in the markets, when the need arises," he said.

A number of analysts expressed concern that the continued strength of the US currency would cut into the profits of IBM, Exxon and Merck, all of which rely on international sources for at least half of their sales.

However, Wall Street's reaction to the projection was mixed, with shares in Merck falling $1 to $68⅞ and Exxon dipping $⅜ to $45⅝, but IBM rising $⅜ to $114⅞.

AT&T, another highly capitalised stock, dipped $⅜ to $36 and General Electric was down $⅜ at $53½.

Although the decline in May's leading economic indicators was greater than the expected 0.9 per cent, the market was unmoved by the sign of a further softening in the US economy. Ten of the index's 12 components contributed to the downturn. April's rise in the indicators was revised to 0.6 per cent from 0.8 per cent.

Not all economists agree that this signals a recession in the US economy, although the May decline is the third in the last four months. According to Mr Lacy Hunt, chief economist at Carroll McEntee & McGinley, the index "needs sustained declines for over a year" to predict recession accurately. The White House said the indicators show a slower but healthy economy.

Shares in Time Inc dropped $2⅜ to $160⅝ after a judge refused a request by three shareholders to postpone Time's annual meeting tomorrow. They argued Time had failed to keep them fully informed of its intentions to take over Warner Communications.

Warner, whose recently released Batman film has been a box-office hit, added $⅞ to $59⅞ on the news. Paramount, whose bid for Time was rejected earlier this week, was up $1¼ at $60⅞.

Union Carbide was the most active issue in midday trading on the New York Stock Exchange, with shares down $⅜ at $26⅝.

A number of blue chip issues fell, including Boeing, which dropped $1⅝ to $49⅞, Philip Morris, down $1 at $140⅞, Johnson & Johnson, off $⅜ at $50, and Bristol Meyers, which fell $⅜ to $49⅞.

Canada

THE ANNOUNCEMENT of weaker-than-expected US economic indicators data caused an early slip by Toronto stocks which were mixed at midday.

The composite index fell 6.3 to 3,772.0 with advances leading declines by 246 to 198 on volume of 15m shares.

Nova lost ground again after cutting its earnings forecast earlier this week. It weakened C$⅛ to C$9⅞.

BCE Development fell 5 cents to C$2.73 after a large rise on Tuesday when Olympia and York offered to buy all outstanding common shares for C$2.60 each.

EUROPE

Germany shrugs off early jitters over Daimler issue

MOST bourses had a stronger and busier session yesterday, although some nervousness over interest rates remained, *writes Our Markets Staff.*

FRANKFURT put its brief spell of consolidation behind it and proceeded with its climb. The market suffered a touch of nervousness in the morning after Daimler announced its rights issue, but the mood changed after news of a strong rise in May machinery orders, said one analyst.

Blue chips performed well, and the DAX index gained 13.50 to 1,491.39. The FAZ picked up 3.38 to 617.83. Turnover was active at DM6.21bn, well up on Tuesday's levels.

Concern about a possible interest rate rise, which contributed to small declines earlier this week, cooled a little. Investors have been fearful that the Bundesbank might raise rates at its meeting today or in the near future.

Daimler shares recovered after opening lower on news of its planned one-for-10 rights issue. "The rights issue was at first a little shock, but there was no selling," said the analyst. The share price had rebounded, he added, because the fact that Daimler wanted to raise further capital had come as no great surprise.

Daimler, the second most active stock, said group turnover had risen 3 per cent in the first five months compared with the same period in 1988 and predicted slightly higher turnover this year. Its shares rose DM4.20 to DM719.

Machinery stocks were bolstered by news of last month's 19 per cent increase in engineering orders, compared with May 1988. MAN gained DM6.50 to DM334 and Linde rose DM14.50 to DM763.

RWE, the utilities group, advanced DM16.40, or 4.7 per cent, to DM334.90. The company continued to benefit from the cancellation of a nuclear waste plant project, for which it had set aside cash in its reserves.

RWE's name has also been mentioned as a potential buyer of Preussag, which rose DM5 to DM318 on continued takeover speculation.

PARIS had an uncertain day, initially reacting well to news on the corporate front but falling back around midday as nervousness about higher interest rates returned. The decline in the US leading economic indicators appeared good news, but Wall Street's early losses depressed French shares further.

The OMF 50 index ended just 0.80 easier at 501.02 after reaching a day's high of 503.82. The CAC 40 real time index lost 6.08 to 1,752.40, while the opening CAC General index showed a 1.5 gain to a new all-time high of 488.40.

Volume remained subdued, estimated at below FFr2bn.

Elf Aquitaine was a feature following its forecast late on Tuesday of sharply higher first half profits. It gained FFr7 to FFr545 and, as one of the largest capitalised stocks, gave the market an early boost.

Peugeot lost FFr16 to FFr1,725 after a bullish annual general meeting, at which the company said it should achieve its target share of at least 13.7 per cent of the European market this year. The stock had risen strongly in the run-up to the meeting and one analyst suggested: "Maybe somebody was expecting a different kind of news."

Crédit Lyonnais added FFr7 to FFr640 following an analysts' meeting in London on Tuesday, with some foreign demand reported but volume not particularly high.

MADRID recovered further ground as selective demand for banks helped to lift the general index by 1.29 to 312.08. Volume failed to improve much, however, at around $100m.

Popular rose 15 percentage points to 1,855 of nominal market value and Central put on 10 to 999. Speculation that banks would have to increase their cash coefficients – the amount of assets they have to put in low-yielding securities – has depressed the sector recently; the banks have also underperformed over the longer term, and "this may have led some people to look at them," said an analyst.

Stocks listed in New York performed well following Wall Street's strength on Tuesday, with Telefonica up 2 at 201.5.

MILAN moved higher in a busier session as interest in Fiat enlivened the market. The Comit index added 1.26 to 647.90. Fiat, which holds its annual meeting tomorrow, gained L345, or 3 per cent, to L10,745, rising to L10,780 after the official close.

ZURICH ended higher, pulled off its early lows by position-squaring at the close of the first half year. The Crédit Suisse index rose 5.0 to 609.7 in moderately active trade.

Bearers of Brown Boveri, the engineering group, gained SFr225, or 4.9 per cent, to SFr4,350. The company it jointly owns with Asea of Sweden, Asea Brown Boveri, has won a SKr6bn power plant construction contract in India, with Skanska of Sweden.

STOCKHOLM rose in high turnover worth SKr317m which was boosted by a large internal deal in Saab-Scania's voting A shares. Some 103,654 shares worth SKr26m changed hands, but the share finished unchanged at SKr252.

Skanska, which has secured a huge Indian contract, saw its free B shares add a further SKr12 to SKr542.

The Affärsvärlden General index rose 7.8 to 1,229.0.

BRUSSELS finished mixed to higher in moderate trading with the spotlight again falling on Cockerill, the steel maker which on Tuesday said it was considering a capital increase later this year. It climbed BFr12 to BFr374 on a hefty turnover of 79,600 shares.

The cash market index rose 5.2 to 6,120.94.

AMSTERDAM eased slightly after a dull, low-volume day with stock of Royal Dutch and Volmac, the software company, advancing against the trend. Turnover was Fl 747m.

Royal Dutch, the most actively traded stock, added 90 cents to Fl 141.30.

The CBS tendency index shed 0.3 to 190.3 in what one analyst described as "one of the most boring days on the exchange over the past six months."

SOUTH AFRICA

UNDERLYING sentiment remained bullish in spite of the fact that gold shares closed lower in thin Johannesburg trading yesterday, reflecting an easier bullion price and firmer financial rand.

Foreigners face Malaysian stocks shortage

Wong Sulong on the drawbacks and potential of one of this year's best performers

THE MALAYSIAN stock market has been one of the world's better performers this year, but foreigners may be hindered from building up investments there because of a shortage of top quality stocks.

The problem arises at a time when the market is expected to make further progress after a sharp correction due to the turmoil in China. The Kuala Lumpur stock exchange composite index of 83 shares has already recovered some of the losses it suffered during the bloodshed in Peking, which set markets trembling throughout the Asia Pacific region.

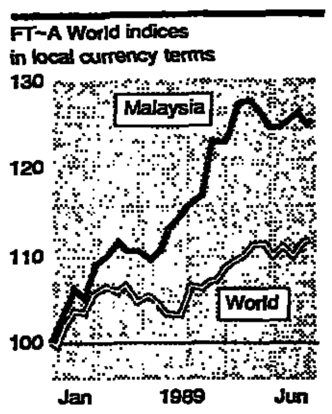
By Tuesday's close, the index stood at 442.85 points – a gain of 24 per cent this year – after falling to 420.97 on June 8. Just six days earlier, on June 2, it had reached a post-crash peak of 458.28. Malaysia has been the seventh best performer so far this year among the 24 countries covered by the FT-Actuaries World Indices, with Singapore slightly ahead of it.

Foreign interest in the market is high, but so are the obstacles. Two favourite companies – Malaysian International Shipping Line and Public Bank Berhad – recently announced that foreign ownership in their equity had reached the maximum 30 per cent allowed. Prospective buyers will have to wait for other foreign investors to sell out before they can register their shares, and this has led to a sharp reduction in their trading volumes.

Foreign investment in other favourites, such as Sime Darby, Malaysian Airline System and Kuala Lumpur-Kepong, is also at a very high level, and the only new blue chip listing on the horizon is that of Kumpulan Guthrie, the huge plantation group that is currently owned by Permodalan Nasional Berhad (PNB), the government equity corporation.

PNB is selling 100m shares, or 10 per cent, of Kumpulan Guthrie, to the Malaysian public at 2.1 ringgit (78 cents) each, and the shares are expected to be listed in mid-August.

Later, it plans to place another 150m Guthrie shares with foreign institutions at a price to be determined. The Guthrie flotation will be the biggest in the market.



Mr Lee Siang Chin, chief executive of Arab-Malaysian Securities, believes that Guthrie shares will appeal particularly to Japanese investors who are new to the Malaysian market.

"They see investing in plantations as putting money in real estate," he said.

Japanese interest in Malaysia is already growing. Arab-Malaysian Merchant Bank, the parent of Arab-Malaysian Securities, recently launched a Malaysia Fund in Japan and attracted a full subscription of $45m.

However, analysts point out that there are likely to be few offers like Kumpulan Guthrie, because many blue chip Malaysian companies prefer to remain private.

This is because present government policy dictates that before obtaining a listing they have to sell at least 30 per cent of their equity locally at what the owners consider to be ridiculously low prices.

Encouraging prospects for the Malaysian market this year are based partly on rapid economic growth. The economy is officially forecast to grow by 8 per cent this year after 8.1 per cent last year.

Price earnings ratios of the top 50 Malaysian companies are at about 20, compared with 25 last year, and are still considered attractive because of good earnings prospects.

In addition, there is now a fair degree of political stability. Dr Mahathir Mohamad, Prime Minister, has become a less controversial figure and, after his recent successful heart bypass operation, looks set to lead the country for at least another five-year term.

Further supply should eventually come on to the market as Mr Samy Vellu, the new energy minister, pushes ahead with the privatisation of the electricity board, telecommunications and postal services.

The crackdown in China may actually benefit Malaysia if investors divert some of their planned investments from China and Hong Kong to Kuala Lumpur, Singapore and Thailand.

On the other hand, the upheaval in China could have a negative impact on Malaysia's leading export commodities – rubber and palm oil – of which China takes a large share. Prices of these commodities, moreover, will weaken further if there is a slowdown in the US economy.

Some foreign fund managers are also uncertain about the Government's plans after the expiry of the existing 20-year New Economic Policy next year. But the meetings of the National Economic Consultative Council, charged with formulating a new long-term economic plan, have been stressing growth before the redistribution of income.

ASIA PACIFIC

Resignation hints exacerbate selling mood

Tokyo

SPECULATION that Prime Minister Sousuke Uno might resign sent the Japanese stock market lower yesterday, *writes Yuriko Mita in Tokyo.*

Investors, also discouraged by the weak yen, sold heavily in the morning, although the market managed to regain some of its losses in the afternoon. The Nikkei average finished 223.61 down at 33,245.60, after reaching a low of 32,952.01. The day's high was 33,430.61.

Volume, at 612m shares, was slightly higher than Tuesday's 570m. Declines led advances by 655 to 268, while 161 issues remained unchanged.

The Topix index of all listed shares dropped 15.51 to 2,466.23. In London the ISE/Nikkei 50 index was off 0.15 from the Tokyo close at 1,954.54.

Hints that Mr Uno might resign and the continuing unstable political climate were the main factors keeping investors in a selling mood. The ruling Liberal Democratic Party could suffer large losses in elections to the Tokyo city council on Sunday, and further revelations about Mr Uno's past affairs are expected in the next few days. In the circumstances, analysts said, investors had found it difficult to take new positions.

The yen's fall throughout the day also discouraged investors. The Bank of Japan's intervention in the currency market four times failed to halt the yen's decline.

High technology issues were some of the bright spots, especially those related to the development of magnetic levitation trains. Buy orders for these issues helped the market recoup some of its losses in the afternoon.

Showa Electric Wire and Cable rose Y30 to an all-time high of Y1,440 and Tatsuta Electric Wire and Cable added Y80 to Y1,120, a high for the year. Shinko Electric was the second most actively traded, going up Y10 to Y1,130 on robust volume of 16.7m shares.

The first and third most actively traded issues were the shipbuilders Mitsubishi Heavy Industries and Kawasaki Heavy Industries. Mitsubishi, which hit a record high of Y1,250 last Friday, closed down Y30 at Y1,180 with 16.8m shares changing hands. Kawasaki closed at Y1,150, down Y20, on a turnover of 15.3m shares.

The Osaka Stock Exchange average fell about 203 points to close at 32,500. Volume was 74.3m shares.

Roundup

THERE were advances in most of the leading markets, although the level of activity varied greatly.

AUSTRALIA was boosted by demand for individual stocks, the overnight rise on Wall Street and a decline in the Australian dollar. There was also active trade in stocks with options expiring today.

The All Ordinaries index gained 10.5 to 1,519.0 on turnover similar to Tuesday's at 106m shares worth A$167m.

Market leader BHP, which is due to report annual profits tomorrow, gained 20 cents to A$8.74. Bond Corp was volatile, losing 8 cents before rebounding to close 2 cents higher at 92 cents.

Resource issues benefited from the weak local dollar, which encouraged overseas interest. CRA rose 14 cents to A$8.64, Bougainville Copper gained 6 cents to A$1.98 and Western Mining advanced 4 cents to A$5.42.

HONG KONG edged higher after a dull day, with the Hang Seng index up 12.40 at 2,245.05 in volume worth HK$592m.

Hongkong Telecom, the country's largest issue, was the second most active stock on demand from US fund managers, rising 12.5 cents to HK$4.45. Most active was Cheung Kong, up 5 cents at HK$7.

SINGAPORE had an active session in which most shares moved higher. The return of institutional investors helped the Straits Times industrial index gain 16.82 to 1,308.44 in volume of 145m shares, up from Tuesday's 88m.

TAIWAN recovered some more of the ground lost on Monday, with the weighted index rising 125.59 to 9,422.69, although volume was lighter than on the previous day.

SEOUL declined for the seventh session in a row, with the composite index losing 13.04 to 866.48 in slow trading. One factor behind the losses is a lack of institutional liquidity.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	TUESDAY JUNE 27 1989						MONDAY JUNE 26 1989			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Day's change % local currency	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1989 High	1989 Low	Year ago (approx)
Australia (84)	131.96	−0.6	124.97	114.53	−0.1	5.15	132.78	127.42	114.68	157.12	128.28	140.43
Austria (19)	121.08	−0.9	114.67	122.58	−1.4	2.21	122.22	117.29	124.34	124.16	92.84	85.10
Belgium (63)	129.29	+0.5	122.45	130.57	+0.1	4.19	128.66	123.46	130.40	137.10	125.58	119.50
Canada (123)	141.17	+0.2	133.69	122.06	+0.2	3.28	140.95	135.26	121.87	141.80	124.67	127.93
Denmark (38)	197.21	+0.8	186.77	203.99	+0.7	1.65	195.59	187.69	202.64	197.21	165.35	128.20
Finland (26)	140.23	+0.1	132.80	128.78	−0.2	1.63	140.13	134.47	129.01	159.18	125.81	132.73
France (128)	120.76	−0.1	114.36	125.64	−0.2	3.02	120.92	116.03	125.90	122.79	112.57	95.39
West Germany (100)	88.96	−0.7	84.25	90.46	−0.8	2.25	89.59	85.98	91.15	90.72	78.56	74.55
Hong Kong (49)	92.75	−1.7	87.83	92.80	−1.7	5.77	94.36	90.55	94.41	140.33	86.41	107.00
Ireland (17)	134.59	+0.8	127.46	138.83	+0.5	3.03	133.82	128.42	138.19	151.38	125.00	135.83
Italy (97)	83.52	−0.8	79.09	88.19	−0.7	2.52	83.99	80.60	88.82	86.88	74.97	71.42
Japan (455)	177.15	−0.6	167.77	158.00	−0.4	0.50	178.25	171.05	158.65	200.11	164.22	162.52
Malaysia (38)	179.58	+0.4	170.07	186.87	+0.5	2.57	178.81	171.58	185.93	185.03	143.36	151.39
Mexico (13)	264.08	−0.2	250.09	718.95	−0.2	0.70	264.53	253.84	720.15	271.98	153.32	169.04
Netherland (42)	120.89	+0.7	114.49	121.52	+0.6	4.26	120.02	115.17	120.79	122.22	110.63	103.87
New Zealand (24)	66.58	−1.5	63.05	60.97	−0.9	6.09	67.57	64.84	61.50	78.02	62.64	79.68
Norway (26)	181.12	−0.7	171.53	174.98	−1.0	1.46	182.34	174.97	176.71	198.39	139.92	122.51
Singapore (26)	159.79	+0.5	151.33	143.92	+0.6	1.93	158.93	152.51	143.04	161.98	124.57	123.42
South Africa (60)	148.39	−1.5	140.53	132.66	−0.1	4.03	150.71	144.62	132.84	150.71	115.35	121.38
Spain (43)	148.43	+0.5	140.57	139.49	−0.1	3.53	147.62	141.66	139.57	158.17	143.14	154.97
Sweden (35)	165.94	+0.5	157.15	162.56	+0.3	2.11	165.19	158.52	162.13	165.94	138.45	117.14
Switzerland (57)	79.79	−0.3	75.56	83.30	−0.3	2.31	80.04	76.80	83.56	81.29	67.81	79.31
United Kingdom (314)	142.28	+2.4	134.74	134.74	+1.0	4.34	139.00	133.39	133.39	153.33	139.28	132.75
USA (555)	133.83	+0.5	126.74	133.83	+0.5	3.36	133.11	127.74	133.11	133.83	112.13	111.08
Europe (1005)	119.15	+0.9	112.84	117.36	+0.3	3.50	118.05	113.28	117.04	121.70	112.63	106.10
Nordic (125)	161.38	+0.4	152.83	154.85	+0.2	1.83	160.68	154.19	154.49	161.38	137.95	113.68
Pacific Basin (674)	172.33	−0.6	163.21	153.99	−0.4	0.74	173.43	166.42	154.63	194.72	160.44	159.44
Euro−Pacific (1679)	151.13	−0.1	143.13	139.29	−0.2	1.62	151.33	145.22	139.56	164.22	141.56	138.12
North America (678)	134.17	+0.5	127.07	133.10	+0.5	3.35	133.49	128.10	132.42	134.17	112.79	111.98
Europe Ex. UK (691)	104.49	−0.1	98.95	106.63	−0.3	2.85	104.62	100.40	106.93	105.57	96.30	89.54
Pacific Ex. Japan (219)	114.70	−0.8	108.62	103.99	−0.5	5.00	115.67	110.99	104.53	137.65	111.93	122.32
World Ex. US (1875)	150.83	−0.1	142.84	138.86	−0.2	1.70	151.03	144.93	139.11	162.77	141.49	137.64
World Ex. UK (2116)	143.91	−0.1	136.29	137.38	+0.0	2.05	144.10	138.28	137.43	146.04	136.98	126.80
World Ex. So. Af. (2370)	143.73	+0.1	136.11	137.15	+0.1	2.24	143.59	137.79	137.07	146.65	136.67	127.35
World Ex. Japan (1975)	128.01	+0.6	121.23	126.51	+0.4	3.47	127.26	122.12	126.03	128.01	114.51	110.46
The World Index (2430)	143.75	+0.1	136.14	137.11	+0.1	2.25	143.63	137.83	137.04	146.51	136.68	127.32

Latest prices were unavailable for this edition.